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SPECIAL ISSUE: THE INC. 500

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DECEMBER 1986
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AMERICA'S FASTEST-GROWING PRIVATE COMPANIES

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THE 1986 INC. 500

AMERICA'S FASTEST-GROWING PRIVATE COMPANIES

FOR THE FIFTH YEAR, WE ARE PROUD TO PRESENT the INC. 500. Each of the companies that appear on this year's list represents a dramatic tale of risk and reward, enterprise and ingenuity—too many tales, in fact, to be able to do them all justice between the covers of a single issue. In the pages that follow, we visit a remarkable building-supply company that tops the 1986 list with its 100,000% growth over the past five years. We also explore different strategies for business growth as they have been followed by the six companies that have made the 500 list since its inception.

Beyond the individual tales, however, is the story told by the INC. 500 as a whole. Each year's class of growth leaders has anticipated some of the changes in U.S. business, providing what the statisticians might call a leading economic indicator. 1986 is no exception.

This year, for example, there is a hint that the pace of growth has turned downward for the first time. The Class of '86 has an average five-year sales growth of 1,042%—nearly double the figure for the original Class of '82, but down from the roaring 1,315% rate of last year's. The dip probably foreshadows some softening in the overall economy. But there is also strong statistical evidence that much more of this year's growth rate is real growth, not growth fed by the inflationary fires of the late 1970s.

Just as important, the INC. 500 has become successively more productive. The companies on this year's list are considerably bigger in terms of sales, but considerably smaller in terms of employment, than companies on earlier lists. As a result, average sales per employee in 1986 are about $126,000, or more than twice the productivity of the Class of '82.

A less dramatic trend is toward smaller profit margins. Although the information we get from private companies is sketchy, it does reveal that 61% of this year's companies operated with aftertax profits of 5% or less. In 1982, when taxes were generally higher, only about 40% of the companies operated on such narrow margins. Although most owners would prefer to see higher profits, many economists would find in the sales, productivity, and profit figures some evidence of a leaner, hungrier, and more competitive economy.

Finally, there are encouraging signs of resilience in America's industrial sector. During the past five years, Rust Belt states, such as Indiana, Michigan, Missouri, Ohio, Pennsylvania, New Jersey, and New York, have held their own or shown modest gains in the geographic distribution of INC. 500 companies. And over the same period, the lists have shown only a 5% shift from manufacturing to the service sector. Is this proof of an industrial renaissance? Hardly. But it does seem to cast a shadow of doubt on recent prophecies of industrial collapse.

The wisdom of those who study it is that the U.S. economy is today the most dynamic and entrepreneurial of any nation in the world. In its five years, the INC. 500 has become a metaphor for that dynamism and spirit of entrepreneurship. To those who made the list this year—and those who aspire to it in the future—we salute your risk taking, your resolve, and your resourcefulness.

— The Editors

THE INC. 500

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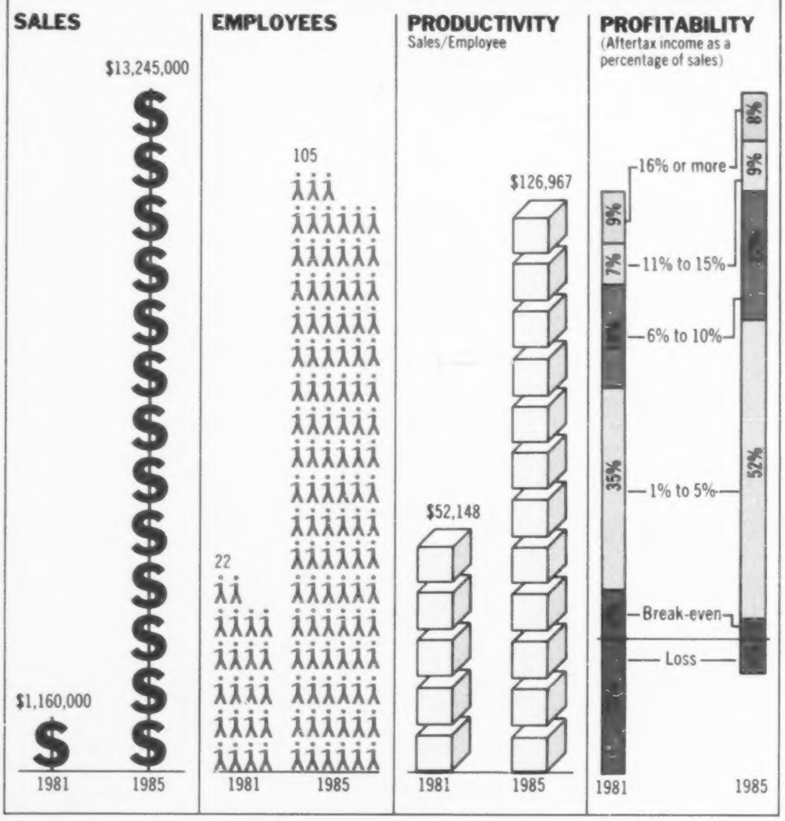
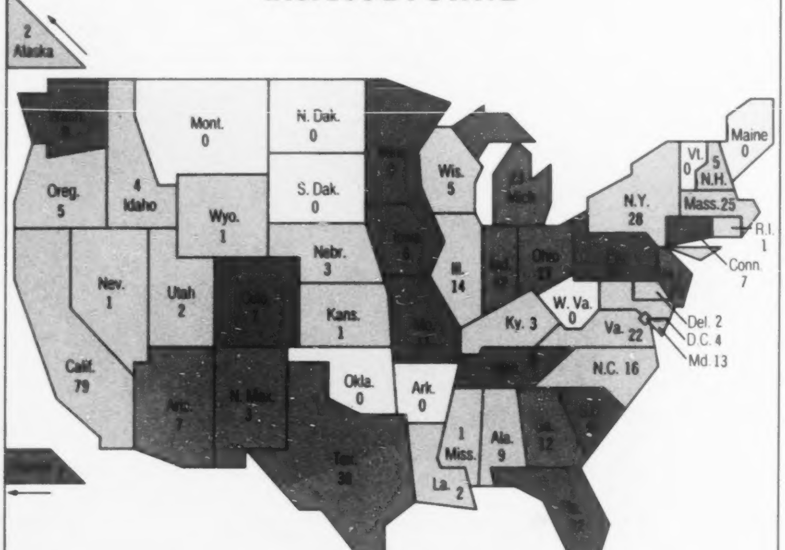
AT A GLANCE

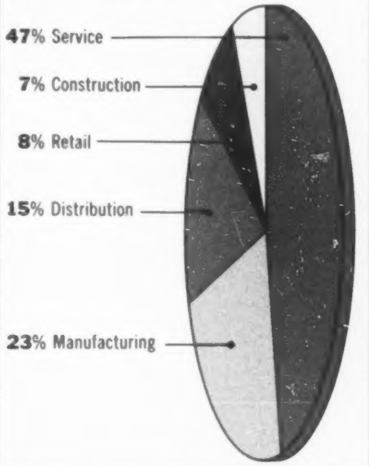
HISTORY OF GROWTH: THE AVERAGE INC. 500 COMPANY



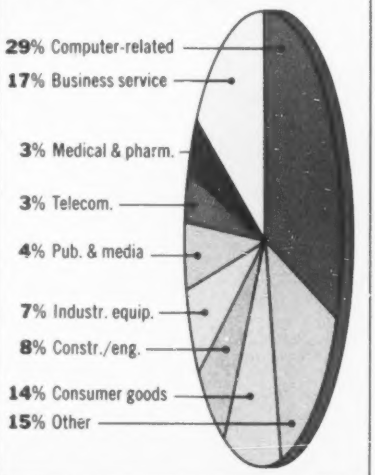
INC. 500 BY STATE


2 Alaska
Mont. 0
N. Dak. 0
S. Dak. 0
Oreg. 5
4 Idaho
Wyo. 1
Nebr. 3
Nev. 1
Utah 2
Kans. 1
Calif. 79
Okla. 0
Ark. 0
Ariz. 7
N. Mex. 3
Tex. 38
Wis. 5
Ill. 14
Mich.
Ohio
Ky. 3
W. Va. 0
Va. 22
N.C. 16
1 Miss.
Ala. 9
La. 2
Ga. 12
Maine 0
Vt. 0
5 N.H.
Mass. 25
N.Y. 28
R.I. 1
Conn. 7
Del. 2
D.C. 4
Md. 13
INC. 500 companies per 100,000 total businesses
17 or more
13 to 16
10 to 12
2 to 9
None

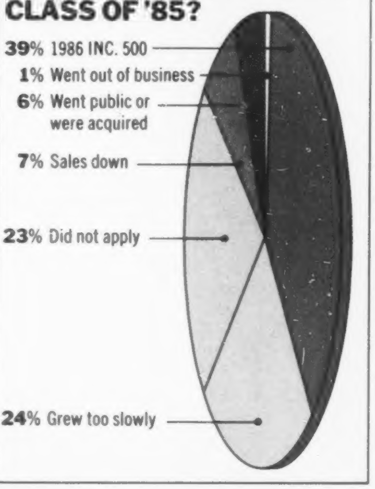
INC. 500 BY SECTOR



INC. 500 BY INDUSTRY



WHAT HAPPENED TO THE CLASS OF '85?



NIGEL HOLMES

THE 500

#8
TEMPS & CO. WASHINGTON, D.C.

WALTER P. CALAHAN

Steve and Crystal Ettridge

Many INC. 500 companies are wife-and-husband teams, but so far as we can tell, this is the only sister-brother collaboration. Like many siblings, Crystal and Steve Ettridge were quite competitive as kids—she envious of his outgoing personality, he jealous of her academic success (she's a former Fulbright scholar). In the early days, she minded the shop while he made the sales calls, but this year, both are involved in buying up smaller competitors (they've acquired two so far) while managing and motivating a full-time staff that's grown to 96, in addition to 3,000 temps on their active roster.

"Are you married?" curious clients often ask the partners.

"Oh, no," Crystal replies. "I could do much better than that."

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range* '85	Profit range* '81	No. of employees '85	No. of employees '81	Date founded
1.	**ABC Supply** (2) Beloit, WI Distr. building supplies	109,737%	$183,428	$167	D	D	600	2	1979
2.	**Eastex Gas Transmission** Tyler, TX Resells, transports natural gas	47,481	80,412	169	D	D	27	3	1980
3.	**AmeriGroup** Stamford, CT Tax syndication	18,518	23,273	125	D	D	50	4	1981
4.	**Int'l Research & Evaluation** Eagan, MN Technology transfer database	17,232	18,545	107	A	C	92	16	1972
5.	**Leone Enterprises** Los Angeles, CA Water-purification systs.	11,176	11,840	105	C	D	25	2	1981
6.	**Chemoil Holding** San Francisco, CA Fuel oil trading & supply	11,169	183,795	1,631	D	E	21	4	1981
7.	**Gibson Group** Cincinnati, OH Mkts. paper & paperboard	10,860	36,607	334	D	D	8	7	1981
8.	**Temps** Washington, DC Temporary svcs.	9,157	12,774	138	D	F	42	2	1981
9.	**Morris Decision Systems** New York, NY Computer sales, svc.	9,008	21,131	232	E	F	90	6	1980
10.	**Maui & Sons** Irvine, CA Mfrs. men's wear	8,031	8,456	104	C	D	9	2	1981
11.	**Zymark** Hopkinton, MA Automated lab instruments	7,555	11,482	150	D	F	152	8	1981
12.	**Applied Energy Services** Arlington, VA Operates nonregulated utilities	7,079	9,189	128	D	F	176	8	1981
13.	**Advanced Medical Systems** Horsham, PA Distr. medical equipment	6,906	7,847	112	C	D	15	12	1980
14.	**Independent Container** Louisville, KY Mfrs. corrugated prods.	6,648	7,558	112	D	F	49	16	1981
15.	**Emmis Broadcasting** Indianapolis, IN Radio broadcasting	6,513	19,245	291	F	F	121	18	1981
16.	**Direct Marketing Technology** Rolling Meadows, IL Computer svcs. to mktg. industry	6,502	8,120	123	A	F	139	29	1981
17.	**UniMessens** Detroit, MI Construction services	6,493	7,252	110	D	E	3	2	1978
18.	**Information Systems & Networks** Bethesda, MD Telecommunications engineering	6,410	19,789	304	B	B	200	15	1980
19.	**May-Craft Information Systems** Dallas, TX Data communications	6,169	7,272	116	D	F	18	7	1978
20.	**Integrated Systems Analysts** Arlington, VA Defense systems engineering	6,005	15,689	257	D	E	259	6	1980
21.	**Core International** Boca Raton, FL Computer mfr. & retailer	5,940	15,341	254	A	A	23	2	1973
22.	**All American Hero** (15) Fort Lauderdale, FL Fast-food franchisor	5,723	18,925	325	B	E	11	5	1980
23.	**Interactive Business Systems** Oak Brook, IL Data-processing software	5,622	6,351	111	D	F	100	6	1981
24.	**Mental Health Management** McLean, VA Mental-health units	5,618	16,755	293	C	F	300	15	1981
25.	**Itron** Spokane, WA Hand-held computer systs.	5,522	27,999	498	C	F	280	35	1977

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#31
ISLAND WATER SPORTS INC. DEERFIELD BEACH, FLA.

KEITH GLASGOW

Kirk Cottrell

Wouldn't you know it? The day Kirk Cottrell opened his flagship store in Deerfield Beach, a hurricane rammed into the Florida coast. Sales were outta sight.

Hurricanes bring wind, and wind brings surf, and surf brings surfers—kids, mostly. Cottrell calls them "grommets," and for the grommets of Deerfield Beach, Cottrell has become something of a Pied Piper. He surfs with them, and they "hang" at his store. Worried parents call Cottrell to see if he might talk some sense into their kids. And not coincidentally, the kids buy his gear—the surfboards, the sweatshirts, the baggies (surfer talk for swimsuits).

There are 22 Island Water Sports stores now, most of them franchises, each one with its own specialty and its own set of grommets. In Dania, Fla., it's sailboards. In Tallahassee, it's water skis. In St. Louis (not much surf there), it's skateboards. This is retailing to the MTV generation. The Beach Boys meet Don Johnson.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
26.	**Richard Young Office Prods.** (30) Fort Lauderdale, FL Word/data-processing supplies	5,388%	$9,988	$182	D	D	30	8	1979
27.	**PSI** Costa Mesa, CA Maintenance of elect.-generat. stations	5,213	11,211	211	C	C	220	30	1981
28.	**Resource Information Mgmt. Systs.** Oak Brook, IL Systs. to automate health-care ind.	5,117	10,955	210	B	E	63	5	1981
29.	**ADD Electronics** East Syracuse, NY Distr. electronic components	5,114	10,220	196	E	F	58	4	1981
30.	**SCA** (6) Redmond, WA Health & fitness equipment	4,948	37,205	737	B	B	262	15	1980
31.	**Island Water Sports** (25) Deerfield Beach, FL Water sporting goods	4,516	7,385	160	B	A	35	3	1979
32.	**BMC Software** (254) Sugar Land, TX Dvlps. systems software	4,182	9,335	218	F	C	60	6	1980
33.	**Sun Financial** Clearwater, FL Financial svcs., equip. leasing	4,180	4,836	113	B	D	4	1	1981
34.	**National Health Care Affiliates** (23) Buffalo, NY Health care	4,091	36,382	868	D	C	1,621	56	1977
35.	**Web Technologies** Oakville, CT Mfrs. laminated flexible prods.	3,956	7,463	184	D	A	48	3	1981
36.	**Conservatree Paper** San Francisco, CA Wholesale paper	3,947	9,024	223	E	F	8	5	1976
37.	**Lifetree Software** Monterey, CA Publ. software	3,940	4,121	102	C	C	30	1	1981
38.	**General Computer** Cambridge, MA Dvlps., mkts. peripherals	3,908	20,441	510	D	A	113	8	1981
39.	**RJO Enterprises** Lanham, MD Info. systs. architecture	3,844	4,970	126	D	D	116	2	1979
40.	**Lutz Associates** Detroit, MI Human-resource dvlp. svcs.	3,736	4,565	119	C	F	46	4	1980
41.	**Tricom Group** West Hempstead, NY Computer distr. & maintenance	3,717	7,329	192	D	D	18	2	1981
42.	**F. A. Components** (59) Elmhurst, NY Distr. microcomputer hardware	3,699	31,153	820	D	D	45	3	1980
43.	**Captive-Aire Systems** (65) Raleigh, NC Mfrs. kitchen-ventilation equip.	3,684	6,017	159	C	C	62	8	1979
44.	**Quality "S" Manufacturing** (98) Phoenix, AZ Mfrs. trailer hitches	3,577	6,030	164	A	A	65	10	1977
45.	**Micro Center** (16) Columbus, OH Computer department store	3,509	25,988	720	D	B	120	12	1979
46.	**Teleconnect** (28) Cedar Rapids, IA Telemktg. & telecomm. syst. dvlp.	3,476	72,306	2,022	D	D	700	30	1979
47.	**Alpharel** Camarillo, CA Computerized mgmt. systs.	3,400	7,596	217	F	F	80	6	1981
48.	**United Phone Book Advertisers** Lincoln, NB Publ. phone directories	3,366	4,021	116	D	F	128	6	1981
49.	**Mobile Imaging** Pittsburgh, PA Computerized medical-tech. svcs.	3,346	4,480	130	A	F	11	2	1980
50.	**American Remodeling** Irving, TX Exterior residential remodeling	3,310	34,000	997	C	D	190	25	1980
51.	**Thomas Design & Engineering Svcs.** Swartz Creek, MI Designs machines & molds	3,163	6,101	187	C	A	199	5	1980
52.	**Shawmut Design & Construction** Boston, MA Architecture/engineering	3,124	4,224	131	D	E	52	3	1981
53.	**Broadway & Seymour** Charlotte, NC Computer systs. & svcs.	3,096	14,221	445	D	F	225	10	1981
54.	**DPCS** (45) Huntington Beach, CA Computer programming svcs.	3,034	8,807	281	D	E	36	6	1977
55.	**Sigal** (134) Washington, DC General contracting	2,968	64,952	2,117	D	D	110	40	1976
56.	**Advanced Energy Industries** Fort Collins, CO Electronic power supply mfr.	2,931	6,577	217	D	B	106	12	1981
57.	**South Kansas City Electric** Lenexa, KS Electrical construction contracting	2,922	4,563	151	D	D	101	8	1980
58.	**Crosby Vandenburgh Group** (62) Boston, MA Magazine publishing	2,879	10,307	346	C	F	45	10	1980
59.	**Computer Technology Associates** (34) Englewood, CO Aerospace systs. engineering	2,842	22,389	761	D	C	324	50	1979
60.	**Southwall Technologies** (116) Palo Alto, CA Mfrs. thin film prods.	2,818	9,631	330	C	F	102	24	1979

*INC. estimate: A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
61.	**Sytek** Mountain View, CA LAN data-communication systs.	2,774%	$70,422	$2,450	F	F	475	38	1979
62.	**Travel Ventures** Hilton Head, SC Retail travel agency	2,708	11,595	413	D	D	60	3	1977
63.	**Rattan Showroom** Austin, TX Retail furniture store	2,690	4,883	175	D	C	44	3	1981
64.	**Claremont Financial Services** (117) Boston, MA Property development & mgmt.	2,686	50,601	1,816	B	D	224	79	1968
65.	**Broderbund Software** (12) San Rafael, CA Publ. software	2,682	20,000	719	B	C	110	10	1980
66.	**United States Medical** Cincinnati, OH Medical laser dealer	2,652	6,083	221	D	C	21	2	1981
67.	**3 Strikes** New York, NY Customized embroidered sportswear	2,632	3,196	117	B	F	5	1	1981
68.	**Softsel Computer Products** (4) Inglewood, CA Distr. microcomputer equip.	2,617	206,790	7,610	D	D	450	40	1980
69.	**Summa Four** (230) Manchester, NH Telecommunications peripherals	2,604	12,170	450	D	F	135	18	1976
70.	**Abacus II Computers** Toledo, OH Computer retailer	2,577	10,683	399	D	D	50	5	1980
71.	**John Paul Mitchell Systems** Beverly Hills, CA Professional hair-care prods.	2,570	11,454	429	A	B	19	4	1980
72.	**Motion Designs** Fresno, CA Mfrs. light sports wheelchairs	2,538	9,708	368	C	C	87	3	1980
73.	**Bennett Funding Group** (19) Syracuse, NY Equipment leasing	2,498	41,305	1,590	D	D	34	8	1977
74.	**Triad Energy** Houston, TX Oil & gas producer/explorer	2,491	3,031	117	C	F	21	4	1979
75.	**Computer Specialists** Monroeville, PA Computer programming svcs.	2,473	2,882	112	A	F	87	4	1980
76.	**Group Benefit Services** Hunt Valley, MD Group insurance administrator	2,472	3,883	151	D	D	7	2	1980
77.	**San Diego Design** (71) Santee, CA Mfrs. home furnishings	2,460	6,962	272	D	A	125	12	1980
78.	**Commonwealth Tool Specialty** Roanoke, VA Indust. cutting-tool specialists	2,457	2,583	101	D	F	12	1	1981
79.	**Strategic Management Group** Philadelphia, PA Bus. simulations & mgmt. training	2,456	2,607	102	C	F	30	4	1981
80.	**CommTek** (21) Boise, ID Magazine publishing	2,445	15,321	602	F	B	125	9	1977
81.	**Replacements** Greensboro, NC China & crystal mail order	2,387	3,955	159	D	D	40	1	1981
82.	**Hartley Coursewares** Diamondale, MI Educational computer software	2,369	2,666	108	A	D	14	3	1981
83.	**Corporate Information Systems** Bridgeville, PA Data-processing consulting	2,317	3,311	137	C	D	97	4	1981
84.	**Flam & Russell** Horsham, PA Engineering firm	2,305	3,776	157	B	F	45	8	1980
85.	**RPM Pizza** Gulfport, MS Pizza delivery	2,277	77,002	3,239	D	F	722	20	1981
86.	**Runco Video** (286) Foster City, CA Mfrs. projection TVs	2,253	3,318	141	E	D	30	3	1980
87.	**Wittner Hanahan & Peck** St. Petersburg, FL Employee benefits prog. admin.	2,247	3,778	161	D	F	23	3	1980
88.	**Fusion Products International** San Rafael, CA Utility software for IBM minicomp.	2,244	4,642	198	C	A	31	3	1981
89.	**E C** (73) Oak Ridge, TN Engineering contractor	2,200	8,372	364	D	B	177	9	1977
90.	**Delta Group** Chesapeake, VA Owns & operates motels, office bldgs., shop. ctrs.	2,199	7,289	317	D	C	100	25	1970
91.	**Execu-Flow Systems** Cranford, NJ Turnkey computer sales	2,199	2,368	103	D	D	15	4	1981
92.	**Sundance Spas** (83) Chino, CA Mfrs. portable spas	2,137	16,400	733	D	C	200	40	1976
93.	**Datamatic** Richardson, TX Telecommunication systs.	2,137	8,277	370	D	D	40	4	1980
94.	**Burn-Off** Irving, TX Mfrs. suntan products	2,112	2,500	113	C	A	6	1	1981
95.	**KOH Systems** Rockville, MD ADP, telecomm., mgmt. consulting	2,098	5,935	270	D	F	100	4	1980

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#81
REPLACEMENTS LTD. GREENSBORO, N.C.

LEA WILLIAMS

Robert Page

When we called, Robert Page was at home, nursing nine broken ribs, a broken arm, and a broken leg. It seems he had been in an auto accident. And his bones weren't the only things that broke in the crash. Page also lost 18 boxes full of china, crystal, and stemware that he planned to sell to customers who themselves had broken a luncheon plate or chipped a goblet from a discontinued pattern.

Replacements Ltd. started as a hobby. While an auditor for the state of North Carolina, Page enjoyed spending his weekends at flea markets and antique shops collecting odd pieces of fine china. The requests from friends and customers that he used to keep in a recipe box are today logged onto computers by a programmer and five data processors. And a staff that has grown to 55 now works a national network of 1,100 shops and dealers. The customers have changed, too: Beverly Sills has recently ordered some replacements for the Anemone pattern she uses in her country home, while the Vatican has written to order $430 in replacement pieces for Mother Teresa's Cobina.

Page himself uses no china or crystal in his own home. "Mostly, I eat out," he admits. "I have some stuff I can put in the microwave."

#109
PROMEGA CORP.
MADISON, WIS.

JOHN NEINHUIS

William A. Linton

It will probably be a few more years before biotechnology firms convert years of expensive research into government-approved and commercially viable products—and before they start showing up on the INC. 500. In the meantime, there is Promega Corp., developer and manufacturer of some of the basic tools for the gene-splicing trade: enzymes that do the cutting and splicing of DNA molecules.

Promega is now a nearly $3-million company with customers worldwide and subsidiaries in the Netherlands and Australia. The company is also part of a joint venture to transfer the miracle of biotechnology to potentially the world's largest biomedical market, China.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
96.	**Network Rental** Atlanta, GA Rent-to-own household goods	2,092%	$5,414	$247	D	A	124	6	1981
97.	**Basic Computer** (70) Akron, OH Microcomputer sales	2,086	42,062	1,924	F	C	170	26	1978
98.	**SRS Network** (50) New York, NY Data processing	2,071	5,407	249	D	C	68	10	1978
99.	**Hesselbart & Mitten/Watt** Cleveland, OH Public relations	2,071	2,649	122	A	F	25	5	1981
100.	**Mark Moseley Enterprises** Haymarket, VA Travel agency	2,071	9,508	438	F	F	30	3	1981
101.	**M. W. Halpern** Garland, TX General contractor	2,029	4,279	201	C	C	40	2	1979
102.	**Trelltex** Houston, TX Industrial rubber prods.	2,019	2,946	139	D	F	8	3	1981
103.	**Computer Dynamics** (49) Virginia Beach, VA Computer engineering svcs.	2,003	11,148	530	D	C	435	30	1979
104.	**Perry Morris** Newport Beach, CA Equipment leasing & financing	1,993	5,169	247	C	B	30	5	1980
105.	**WRB Associates** Troy, MI Computer software dvlpmt. & sales	1,987	2,859	137	D	D	18	3	1969
106.	**Computer Components Int'l** San Francisco, CA Distr. abrasive materials	1,985	2,523	121	D	F	4	2	1980
107.	**Clean Harbors of Kingston** Braintree, MA Environ. svcs., pollution control	1,955	30,844	1,501	C	C	250	15	1980
108.	**Champion Awards** (147) Memphis, TN Trophies & awards	1,947	3,071	150	D	C	50	4	1970
109.	**Promega** Madison, WI Mfrs. advanced reagent systs.	1,943	2,820	138	D	F	37	13	1980
110.	**Comlinear** Fort Collins, CO Mfrs. signal-processing components	1,943	3,146	154	F	A	40	3	1980
111.	**Consolidated Dutchwest** Plymouth, MA Distr. wood & coal stoves	1,915	14,769	733	C	F	50	10	1980
112.	**Integrated Systems Management** La Jolla, CA Computer software & svcs.	1,894	2,034	102	A	A	20	5	1979
113.	**American Calculator & Computer** (29) Birmingham, AL Computer & calculator sales	1,853	12,734	652	D	D	48	4	1980
114.	**S. W. M. Business Forms & Supplies** St. Louis, MO Distr. business forms	1,850	2,028	104	D	F	6	3	1981
115.	**Robec** (103) Montgomeryville, PA Distr. microcomputer equip.	1,828	32,999	1,712	D	D	90	9	1978
116.	**Logistix** (167) Milpitas, CA Contract mfr.	1,819	14,926	778	D	D	40	10	1974
117.	**Holton Erectors** Wixom, MI General contractor	1,805	2,115	111	D	F	30	10	1980
118.	**Glenn, Nyhan & Associates** San Francisco, CA Health-care insurance svcs.	1,788	4,549	241	C	F	64	12	1980
119.	**Code Alarm** Madison Heights, MI Automobile security	1,783	3,766	200	C	C	35	7	1980
120.	**OMNI Resources** Millbury, MA Mfrs. floppy disks	1,777	2,402	128	E	E	37	5	1980
121.	**Solution Systems** Narberth, PA Remote computer svcs.	1,740	2,061	112	C	B	8	5	1981
122.	**Quality Systems** Vienna, VA Computer systs. engineering & dvlpmt.	1,723	6,017	330	D	D	120	20	1981
123.	**Oregon Freightways** Medford, OR Trucking	1,715	4,956	273	D	F	100	15	1981
124.	**Tech Data** (192) Clearwater, FL Microcomputer peripherals	1,694	37,652	2,099	D	F	63	14	1974
125.	**Dynacom Telecommunications** Watertown, MA Business communication systs.	1,673	2,748	155	C	E	35	3	1980
126.	**Slotline Golf** (295) Huntington Beach, CA Mfrs., sells golf clubs	1,645	3,647	209	D	F	68	8	1975
127.	**Profile** (120) Pompano Beach, FL Vertical blind systs.	1,630	13,705	792	D	F	120	40	1978
128.	**National Decision Systems** Encinitas, CA Database applications	1,611	6,416	375	D	E	116	9	1979
129.	**Dealer Investment Service** (109) Indianapolis, IN Svcs. & prods. to auto dealers	1,598	14,924	879	F	A	106	6	1976
130.	**Screen Graphics** Memphis, TN Printing	1,598	6,621	390	C	D	118	31	1973

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#151
KIRK HORSE INSURANCE INC. LEXINGTON, KY.

BILL STRODE

Ronald and Lori Kirk

They insure horses, don't they?

You bet. Indeed, with racehorses fetching $13 million these days, insurance for a single horse can cost $400,000 a year. Time was when insurers would cover only the cash value of a horse—a figure that could change with the publication of a single day's race results. So settlements were often complicated affairs. Then came Ronald and Lori Kirk, who began offering policies that guaranteed quick, fixed settlement fees in case of loss.

Ronald Kirk was not new to insurance nor to horses. As a young man, he cleaned stables and taught riding. And as a graduate of Harvard Business School in search of management experience, he signed on as a vice-president with a life-insurance company in Dallas. Vocation and avocation joined forces in 1981, and today the Kirks insure in excess of $1 billion worth of horses throughout the world.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
131.	**Berger** Denver, CO Information mgmt. consultants	1,594%	$2,236	$132	C	F	43	8	1981
132.	**Datatel** Cherry Hill, NJ Mfrs. data-communications equip.	1,588	5,604	332	C	C	67	6	1979
133.	**Bowser Cabinet & Casework** San Diego, CA Mfrs. cabinets & casework	1,583	1,801	107	D	A	26	2	1979
134.	**Garey Construction** (293) Austin, TX Excavation & road construction	1,580	19,086	1,136	D	D	80	24	1977
135.	**Xscribe** (17) San Diego, CA Computer-aided transcription systs.	1,577	22,242	1,326	E	C	270	50	1978
136.	**Word & Data Processing Products** Omaha, NB Computer distr. & software dvlpmt.	1,569	4,758	285	D	C	35	3	1979
137.	**Second City Systems** Northbrook, IL Business communications products	1,568	2,068	124	C	C	30	3	1980
138.	**Apex Microtechnology** Tuscon, AZ Mfrs. power optional amplifiers	1,565	3,196	192	B	A	64	5	1980
139.	**E & A Industries** (96) Indianapolis, IN Mfrs. chemicals	1,557	34,705	2,095	C	C	385	23	1977
140.	**Parameter Driven Software** Birmingham, MI Fourth-generation computer software	1,555	4,021	243	E	D	20	3	1981
141.	**O/E Automation** Troy, MI Office automation sales/consulting	1,543	32,903	2,003	D	F	243	6	1979
142.	**Coffee Products** Everett, WA Coffee distributor	1,523	4,901	302	D	D	8	3	1981
143.	**Dytronix** Dallas, TX Insurance software & consulting	1,510	2,815	174	B	C	53	1	1979
144.	**D. D. F. Transportation** Buffalo, NY Common carrier	1,516	1,810	112	D	D	12	2	1981
145.	**American Computer Professionals** Columbia, SC Computer professional svcs.	1,500	3,776	236	C	C	72	6	1979
146.	**Total-Dent** Cromwell, CT Dental practice	1,499	1,823	114	F	A	47	8	1976
147.	**YWC** Monroe, CT Environmental consulting	1,496	5,314	333	D	E	100	30	1980
148.	**Sparta** (80) Huntsville, AL Government research	1,495	17,765	1,114	C	C	243	23	1979
149.	**Sunquest Information Systems** Johnstown, PA Medical lab. info. systs.	1,486	6,597	416	C	D	46	5	1979
150.	**Motor Age** Bogota, NJ Automotive replacement parts	1,482	16,045	1,014	D	E	95	18	1980
151.	**Kirk Horse Insurance** Lexington, KY Thoroughbred horse insurance	1,481	28,556	1,806	D	D	7	3	1981
152.	**Oneida Asbestos Removal** Marcy, NY Asbestos abatement svc.	1,468	3,481	222	D	D	70	3	1981
153.	**Great Western Leasing** (311) Salt Lake City, UT Truck equip. leasing, rental	1,460	9,939	637	B	C	30	5	1978
154.	**Nor-Cote Chemical** Crawfordsville, IN Mfrs. special inks & coatings	1,448	1,857	120	C	C	20	3	1976
155.	**Sobel Linen** Las Vegas, NV Linen supplier	1,442	10,361	672	D	D	12	5	1981
156.	**CardioData** (158) Northboro, MA Mfrs. medical electronics	1,432	3,386	221	D	D	30	5	1971
157.	**Gary A. Taylor Construction** Jackson, TN General contractor	1,425	1,571	103	C	A	12	4	1980
158.	**Connecticut Radio Network** (94) Hamden, CT Produces/syndicates radio programming	1,416	3,593	237	D	F	17	6	1971
159.	**Aim Executive** (187) Toledo, OH Executive recruiting	1,411	3,702	245	A	B	37	12	1977
160.	**Financial Proformas** Lafayette, CA Cash-flow credit analysis	1,409	1,524	101	D	F	25	2	1980
161.	**DEAMM Investment** Alamosa, CO Tire & auto svcs.	1,402	1,878	125	C	D	31	8	1975
162.	**Technical Data** Boston, MA Investment analysis svcs.	1,400	5,581	372	A	B	31	5	1980
163.	**C. J. P. Development** (416) Cranbury, NJ Residential siding	1,397	6,409	428	D	E	140	25	1972
164.	**Little** Salt Lake City, UT Mortgage field svcs.	1,393	1,538	103	B	A	15	4	1979
165.	**PhoneAmerica** Malvern, PA Telephone-systs. sales	1,392	1,537	103	D	F	36	5	1981

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#169
AMERICAN LEISURE INDUSTRIES INC. LANHAM, MD.

MIMI LEVINE

Patrick and Martin Gorman

"Why did God create the goyim?" begins the old Jewish joke.

"Because *somebody* has to pay retail" is the reply.

Some—but not many. It is only a foolish business that doesn't arrange for some sort of corporate discount for its employees' airplane tickets and hotel rooms. But what about individual travelers?

That question led Patrick and Martin Gorman to American Leisure Industries Inc. The company is best known for its Encore travel program, which gives one million paying members the right to a second night free at major-chain hotels, a 25% discount from National Car Rental, and cash refunds on airline tickets purchased through Encore. And if you have the kind of life that allows you to pick up and leave on a moment's notice, American Leisure can save you up to two-thirds the cost for a place on a packaged vacation tour—a bargain for you, a consolation prize for the tour director with an empty seat.

In turning a clever idea into a $14-million business, American Leisure is a classic INC. 500 company. Too bad, then, that its address is 4501 *Forbes* Boulevard. Mr. Forbes, we hear, always travels first-class.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
166.	**Pioneer/Eclipse** (87) Sparta, NC Mfrs. cleaning chemicals	1,387%	$12,568	$845	D	B	75	9	1978
167.	**North American Roofing** (10) Carmel, IN Roofing svcs.	1,384	11,250	758	F	D	200	40	1980
168.	**United Leasing of America** Marlow Heights, MD Auto & equip. lease broker	1,383	32,292	2,178	D	D	25	10	1979
169.	**American Leisure Industries** (97) Lanham, MD Travel company	1,376	14,321	970	D	E	123	25	1978
170.	**Microdynamics** Dallas, TX CAD/CAM systs.	1,370	8,613	586	D	F	59	12	1979
171.	**Walker Richer & Quinn** Seattle, WA Computer terminal emulation	1,341	1,974	137	F	D	16	5	1981
172.	**Glen Ivy Financial Group** (205) Corona, CA Real estate dvlpmt.	1,305	12,910	919	C	C	200	25	1975
173.	**Elgin/Syferd** Seattle, WA Advertising & public relations	1,290	3,100	223	B	F	51	13	1981
174.	**Amtran** (7) Indianapolis, IN Airline	1,278	165,692	12,022	D	D	1,051	150	1973
175.	**Interactive Networks** Central Islip, NY Data & video communications	1,276	1,981	144	D	D	13	4	1979
176.	**LaBrec Financial Group** (274) Nashville, TN Financial svcs.	1,269	2,588	189	C	C	11	6	1976
177.	**Vista Technology** (56) San Marcos, CA Distr. computer prods.	1,221	12,548	950	D	C	35	4	1979
178.	**Employment Services** Virginia Beach, VA Training & employment svcs.	1,219	5,223	396	C	F	175	20	1977
179.	**Academic Guidance Services** (214) Marlton, NJ Computerized guidance svcs.	1,216	1,408	107	A	A	37	5	1975
180.	**Optim Electronics** Germantown, MD Data acquisition systs.	1,216	1,829	139	B	F	27	6	1980
181.	**Masterclean of North Carolina** (46) Winston-Salem, NC Asbestos removal & contracting	1,204	5,190	398	B	B	18	6	1976
182.	**Greater California Dental Plan/NDS** Northridge, CA Prepaid dental plan	1,201	2,264	174	E	D	9	4	1978
183.	**Empire Transport Service** Mahwah, NJ Airport & limo svc.	1,191	2,375	184	F	B	65	17	1980
184.	**Blagge Enterprises** (132) Rancho Cordova, CA Distr. audio- & videotapes	1,186	11,404	887	D	D	22	7	1977
185.	**Jacore Systems** Marietta, GA Supplies minicomputer systs.	1,185	23,126	1,800	C	C	57	30	1979
186.	**Zero Defects** Boise, ID Mfrs. electronic products	1,181	1,922	150	D	F	45	10	1980
187.	**Mantissa** Birmingham, AL Dvlps., mkts. software	1,173	1,719	135	E	E	7	3	1981
188.	**Innovative Computer Mgmt. Systems** Louisville, KY Dvlps. software	1,165	1,430	113	D	F	17	3	1980
189.	**Wexco International** Los Angeles, CA Construction consulting	1,159	1,322	105	A	A	25	10	1981
190.	**Williams Generics** (403) Memphis, TN Distr. generic pharmaceuticals	1,144	14,719	1,183	A	A	63	8	1970
191.	**Viking Electric** (85) Santa Clara, CA Electrical contracting	1,144	24,726	1,988	D	D	172	57	1978
192.	**JL Associates** (75) Hampton, VA Contractor/mgmt. svcs.	1,125	7,275	594	F	D	372	35	1979
193.	**Financial Supermarkets** Peekskill, NY Financial svcs.	1,114	1,250	103	A	E	20	4	1978
194.	**ComputerLand of Hawaii** (135) Honolulu, HI Computer sales & svc.	1,108	16,095	1,332	D	D	69	11	1978
195.	**SpeeDee Oil Change & Tune-up** (84) Metairie, LA Nine-minute oil change	1,107	3,476	288	D	F	72	9	1980
196.	**Micro Data Base Systems** Lafayette, IN Software development tools	1,104	13,003	1,080	C	F	166	40	1979
197.	**U.S. Communications** Minneapolis, MN Promotional mktg.	1,100	17,758	1,480	D	D	103	7	1975
198.	**Science & Engineering Assoc.** Albuquerque, NM Professional svcs.	1,092	5,362	450	D	D	75	20	1980
199.	**Tollman-Hundley Hotels** New York, NY Hotel ownership & mgmt.	1,084	99,448	8,398	A	D	2,200	655	1979
200.	**Spencer & Spencer Systems** St. Louis, MO Computer software dvlpmt.	1,078	4,510	383	D	E	60	14	1980

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#232 ORIGINAL COPY CENTERS INC. CLEVELAND

I'm an Original

MIKE STEINBERG

Nancy Vetrone

She has lost her house—twice.

The first time, a fire left Nancy Vetrone and her five children with only the shirts on their backs. She borrowed mattresses from her mother, clothes from a friend, and moved in with her sister.

The second time, about 10 years later, Vetrone had just started her secretarial service. The entrepreneurial impulse was born of the frustrations of raising five children while trying to hold down as many as three jobs at one time. But unschooled in the ways of the business world, she had financed her start-up with three short-term home-improvement loans, secured by the house. When the loans came due, the company was still short of cash, and she was forced to put the house on the market.

Happily, Vetrone is now a homeowner once again, thanks to a $1.1-million copy service that boasts profit margins of more than 16%.

	Company (1985 rank) Business description	Sales growth 1931–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range* '85	Profit range* '81	No. of employees '85	No. of employees '81	Date founded
201.	**Dealer Information Systems** (118) Bellingham, WA Application software	1,072%	$7,596	$648	D	F	60	10	1980
202.	**Matrix Organization** (76) King of Prussia, PA Data-processing professional svcs.	1,069	4,909	420	D	D	74	15	1980
203.	**American Cablesystems** (259) Beverly, MA Owner/operator cable-TV stations	1,066	68,939	5,913	F	F	676	113	1978
204.	**Flextronics** (122) Newark, CA Electronic assemblies	1,059	51,536	4,446	D	D	1,140	350	1969
205.	**Commonwealth Equity Services** (78) Newton, MA Investment brokerage	1,056	5,134	444	D	D	150	4	1979
206.	**Associated Temporary Staffing** Jacksonville, FL Temporary-employment staffing svc.	1,056	15,664	1,355	D	E	65	25	1978
207.	**Drug Emporium** (320) Worthington, OH Discount drugstore operator	1,055	144,446	12,508	D	D	504	80	1977
208.	**Singer Chiropractic Consultants** Los Angeles, CA Manages doctors' offices	1,040	2,850	250	D	D	30	5	1981
209.	**Diaz Wholesale** Atlanta, GA Food distributor	1,023	2,089	186	B	E	12	4	1980
210.	**Performance Coatings** Ukiah, CA Mfrs., mkts. clear wood finish	1,019	1,208	108	A	F	9	1	1977
211.	**Solectron** (144) San Jose, CA Electronic mfr. computer equip.	1,017	66,991	6,000	D	C	1,500	300	1977
212.	**Financial Services Group** (128) Greenville, SC Financial planning	1,013	2,427	218	A	A	30	2	1979
213.	**Horizon International** Buffalo Grove, IL Distr. printed prods.	999	6,925	630	D	B	16	2	1981
214.	**TRC Temporary Services** (26) Atlanta, GA Temporary-help svc.	998	25,108	2,287	D	D	97	16	1980
215.	**ParaData Computer Networks** Farmington Hills, MI Computer hardware & software	997	7,506	684	D	D	50	12	1979
216.	**Computer Comm. Specialists** (107) Norcross, GA Computer software	996	7,300	666	D	B	74	23	1977
217.	**Honolulu Premium Products** (268) Honolulu, HI Mfrs. jewelry	996	6,848	625	A	C	24	23	1979
218.	**ESCA** (334) Bellevue, WA Systems engineering	991	12,844	1,177	D	F	128	19	1978
219.	**El Camino Resources** (33) Sherman Oaks, CA Retail/lease computer equip.	984	36,944	3,409	D	D	33	7	1979
220.	**Eckman Construction** Manchester, NH General building construction	978	12,783	1,186	D	D	35	8	1974
221.	**CAP International** Marshfield, MA Market research & consulting	972	2,208	206	B	A	35	2	1979
222.	**M. F. Smith & Associates** Bernardsville, NJ Mgmt. & systs. consulting	970	2,396	224	D	B	30	28	1978
223.	**re:Member Data Processing Svcs.** Indianapolis, IN Computer svc. bureau	969	1,817	170	C	D	24	6	1981
224.	**Barefoot Grass Lawn Service** Worthington, OH Lawn fertilization	961	10,461	986	B	F	200	100	1981
225.	**U-Save Auto Rental of America** Salisbury, NC Used-vehicle rental franchisor	956	1,658	157	D	B	6	2	1979
226.	**Aromatic Industries** Orange, CA Fragrance products	955	4,706	446	D	D	70	20	1979
227.	**Compact Performance** (173) San Ramon, CA Distr. remanufactured auto engines	953	2,053	195	C	D	4	2	1977
228.	**Gas Monitoring & Analysis** Farmington Hills, MI Hospital consulting	952	1,094	104	E	C	15	3	1981
229.	**American Star Software** (51) Torrance, CA Publ. small-business software	950	3,664	349	D	D	42	6	1980
230.	**K. O. Swanson** (63) Milpitas, CA General contractor	944	23,641	2,265	F	D	105	10	1980
231.	**Laurel Burch** San Francisco, CA Jewelry & accessories	942	8,077	775	D	D	97	22	1979
232.	**Original Copy Centers** Cleveland, OH Legal/corporate copy svc.	939	1,122	108	A	B	20	5	1975
233.	**MicroAge** Tempe, AZ Computer-store franchisor	937	142,279	13,718	D	F	224	60	1976
234.	**Dataman Group** (454) Atlanta, GA Information mgmt.	937	3,640	351	A	E	32	10	1980
235.	**All-Star Printing** Lansing, MI Commercial printer	934	2,131	206	D	D	28	7	1961

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#251
COMPUTER SHOPPER OF TITUSVILLE INC.

#269
TITUSVILLE AIR CONDITIONING INC. TITUSVILLE, FLA.

BARTLETT & ASSOC.

Gary Altman, Gary Luke, and Glenn Patch

Judging solely by its size—38,000 population—a place like Titusville, Fla., would do well to show up once on the INC. 500. As it turns out, two Titusville companies made this year's list, and we quickly figured out why: outer space.

From Titusville, you can look out the window at the Kennedy Space Center, and for some time, Titusville's economy has been tied to the fortunes of its more famous neighbor. With the start of the space-shuttle program in the early 1980s, Titusville was booming, bringing to town hundreds of professionals who needed the air-conditioning units sold by Gary Luke and Gary Altman and the personal-computer products advertised in Glenn Patch's *Computer Shopper*. More recently, the hiatus in the space-shuttle program after the *Challenger* tragedy has left 2,000 people temporarily unemployed in Titusville. But the official line from the Chamber of Commerce is that the next big project, the space station, will do for Titusville what microcomputers did for San Jose.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
236.	**Royal Silk** (168) Clifton, NJ Silk fashion apparel	932%	$35,600	$3,450	D	D	170	35	1978
237.	**Unicon International** Berkeley, CA Surveyors of marine cargo containers	919	8,640	848	D	F	70	10	1981
238.	**G. N. P. Loudspeakers** (72) Pasadena, CA Audio/video/computer retailer	916	3,383	333	D	C	13	4	1977
239.	**Phoenix Microsystems** Huntsville, AL Telecommunications test equip.	914	5,098	503	C	D	80	25	1977
240.	**Winn Packaging** Fairfield, OH Mfrs. plastic bottles	912	8,585	848	C	D	140	25	1980
241.	**Robbins Communications** (283) Pittsburgh, PA Communications installation	912	3,583	354	C	A	95	14	1978
242.	**Heurikon** (240) Madison, WI Microcomputer boards & systs.	906	8,364	831	D	C	75	29	1972
243.	**Mar-Cor Industries** Northbrook, IL Precious-metal recovery & refining	904	1,576	157	C	D	7	2	1981
244.	**Burlington Brands** Burlington, NC Clothing outlet	896	4,374	439	C	C	30	3	1981
245.	**Corporate Investmt. Business Brokers** Phoenix, AZ Business-brokerage franchisor	896	2,300	231	A	D	16	3	1981
246.	**Martin Forest Industries** Healdsburg, CA Wholesale lumber broker	894	10,319	1,038	D	D	11	5	1979
247.	**Moss Telecommunications Services** Grand Rapids, MI Telephone & data cable systs.	890	1,376	139	C	C	30	8	1977
248.	**Dexel Systems** Vienna, VA Small-business systs.	889	29,758	3,008	D	D	69	30	1972
249.	**Crown Distributing** Bridgeton, MO Distr. chemicals, adhesives	888	1,738	176	C	F	6	2	1980
250.	**Rizzo Simons Cohn** Boston, MA Advertising agency	886	13,010	1,320	D	C	37	10	1981
251.	**Computer Shopper of Titusville** Titusville, FL Magazine publisher	885	3,231	328	D	C	47	20	1979
252.	**Prime Resources** (232) Stamford, CT Advertising specialties & premiums	884	4,112	418	B	C	52	14	1978
253.	**Polycom Huntsman** Washington, PA Compounder of thermoplastics	881	57,505	5,864	D	C	97	35	1977
254.	**Computerized Lodging Systems** (148) Long Beach, CA Resells computer systs.	880	8,655	883	C	A	27	12	1981
255.	**Action Equipment** (18) Londonderry, NH Retails, leases construction equip.	877	11,606	1,188	C	D	81	10	1980
256.	**Garick** Cleveland, OH Lumber & landscape supplies	876	1,756	180	D	E	6	3	1980
257.	**Royal Waterbeds** (153) Ellisville, MO Waterbeds, furniture, & accessories	866	9,217	954	D	C	70	10	1977
258.	**Group 243** Ann Arbor, MI Advertising, design, & marketing	862	34,453	3,581	D	D	98	36	1974
259.	**Johnson Carlier** Phoenix, AZ General contracting	859	35,755	3,729	D	D	95	20	1921
260.	**DeWolfe** Lexington, MA Real estate svcs.	851	8,610	905	D	F	235	72	1949
261.	**Metro Information Services** (86) Virginia Beach, VA Computer consulting	849	5,038	531	D	D	125	20	1973
262.	**Pro-File Systems** (249) Conshohocken, PA Color-coded filing systs.	848	1,859	196	D	D	15	4	1979
263.	**Teleco USA** Greenville, SC Distr. phone equip.	841	5,459	580	D	D	27	4	1981
264.	**ComputerLand of Phoenix** (204) Phoenix, AZ Computer retailer	840	28,024	2,982	D	C	110	19	1978
265.	**Baillie Manufacturing** Gibson City, IL Mfrs. highway trailers	839	7,889	840	B	F	104	15	1970
266.	**Star Nail Products** Burbank, CA Acrylic fingernails	830	2,790	300	C	C	26	3	1981
267.	**Hard Engineering** Huntsville, AL Communications test equip.	829	938	101	B		12	2	1981
268.	**L. M. S. Technical Services** Farmingdale, NY Computer maintenance svcs.	827	1,122	121	C	C	15	3	1979
269.	**Titusville Air Conditioning** Titusville, FL Air conditioning & heating	821	967	105	C	B	7	1	1981
270.	**Roberts Welding Contractors** (185) Winterville, NC Industrial contractor	818	4,222	460	D	D	97	17	1977

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#302
HISTORY ASSOCIATES INC. ROCKVILLE, MD.

RHODA BAER

Philip Cantelon

Alex Haley proved you could make money with personal history. Herman Wouk did it with world history. Now comes Philip Cantelon, who has figured out a way to turn a profit on institutional history.

Cantelon's History Associates has compiled a history of the Three Mile Island accident for the U.S. Department of Energy, written the corporate history of Texas Instruments Inc., helped organize the archives of Florida National Banks, and provided historical research in connection with lawsuits for the states of Texas and New Mexico. History Associates charges anywhere from a few thousand to a few hundred thousand dollars for its research and writing. But Cantelon is quick to add that the professional historians who oversee the projects will accept no money for historical revisionism in the cause of public relations.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range* '85	Profit range* '81	No. of employees '85	No. of employees '81	Date founded
271.	**Data Systems Computer Centre** Union, NJ Microcomputer, peripheral sales	818%	$35,749	$3,896	D	D	70	25	1973
272.	**Vista Products** Sarasota, FL Fabricates window treatments	812	5,033	552	D	C	54	5	1981
273.	**Association Management Services** Leeds, AL Manages small-bus. trade assn.	811	3,125	343	C	D	58	8	1970
274.	**Starmark** (298) Chicago, IL Advertising & public relations	809	12,630	1,390	B	C	32	7	1978
275.	**Triangle Software** San Jose, CA Dvlps. software systs.	807	2,894	319	D	E	17	3	1980
276.	**Kron Medical** Chapel Hill, NC Temporary physician svcs.	807	10,183	1,123	D	D	36	10	1980
277.	**Fit-All Sportswear** Pilot Mountain, NC Mfrs. sports accessories	805	3,666	405	D	F	90	15	1972
278.	**Q. E. P.** (263) West Nyack, NY Distr. construction tools	805	2,272	251	C	D	22	3	1979
279.	**Whitebirch** (219) Breezy Point, MN Time-share & campground dvlpmt.	796	17,866	1,993	C	D	600	235	1974
280.	**Contact Communications** (488) Elmont, NY Radio paging	790	1,166	131	F	D	15	2	1980
281.	**Sinclair International** (306) Portland, OR Financial svcs. & consulting	788	1,759	198	B	E	4	2	1971
282.	**Northland Environmental** (92) Burbank, CA Water-purification systs.	779	6,393	727	C	F	90	10	1975
283.	**Judson Lumber** Plain City, OH Wholesale/retail lumber	779	4,710	536	D	D	24	8	1981
284.	**Newbury Comics** Cambridge, MA Records, comics, posters	779	1,845	210	D	C	13	4	1978
285.	**Cejka** St. Louis, MO Executive search	778	1,729	197	B	E	17	1	1981
286.	**CIT Construction Inc. of Texas** (301) Stafford, TX General contractor	778	8,600	980	B	B	30	10	1980
287.	**Vocational Training Center** (455) St. Louis, MO Vocational schools	774	9,080	1,039	A	C	155	12	1961
288.	**Eastern Marine Construction** Nashua, NH Roadway, utility, site work	768	963	111	D	D	22	4	1981
289.	**Presentables-Cinzia** Mill Valley, CA Mfrs. women's lingerie	763	1,027	119	B	D	6	2	1980
290.	**Mellow Mail** New York, NY Mail-order catalog	758	5,902	688	C	D	35	12	1977
291.	**AIM** Pittsburgh, PA Designs, distr. gift items	757	891	104	C	F	5	1	1981
292.	**Warwick Data Systems** Parsippany, NJ Data-communications equip.	754	1,820	213	D	A	6	2	1981
293.	**Calculus Construction** Farmington Hills, MI Structural restoration contractor	752	3,127	367	C	E	17	5	1978
294.	**American Advertising Associates** Redwood City, CA Direct-mail svcs.	752	1,644	1[illegible]	D	E	8	2	1978
295.	**Mountain Computer** Scotts Valley, CA Mfrs., mkts. peripherals	751	28,973	3,406	C	D	205	50	1977
296.	**Altex Electronics** Carmel, IN Electronics distribution	749	1,519	179	D	F	10	4	1981
297.	**ETM Electromatic** (387) Palo Alto, CA Mfrs. test equipment	740	5,671	675	D	F	100	20	1973
298.	**Marketing Resource Group** Lansing, MI Business/political consultants	736	1,788	214	C	F	11	4	1980
299.	**Woodworker's Supply** Albuquerque, NM Woodworking machinery & tools	734	8,854	1,061	D	D	35	16	1972
300.	**National Instruments** (314) Austin, TX Computer interface equipment	733	7,210	866	C	F	82	26	1976
301.	**Plow & Hearth** Madison, VA Country-living mail-order catalog	732	1,897	228	D	F	9	3	1980
302.	**History Associates** Rockville, MD Historical/archival svcs.	732	1,081	130	D	C	18	3	1981
303.	**Comfab** (337) Addison, IL Telecommunications equip. supplier	731	10,100	1,215	D	D	146	23	1974
304.	**T/Maker** Mountain View, CA Publ. software	728	1,200	145	C	A	6	2	1980
305.	**Systems Research & Applications** (228) Arlington, VA Computer professional svcs.	724	14,263	1,731	D	D	182	32	1978

*INC. estimate. A: 16% or more; B: 11% to 15%; C: 6% to 10%; D: 1% to 5%; E: Breakeven; F: Loss

#329 MATARAZZO ASSOCIATES ATLANTA

DREW LEVITON

Stanley Matarazzo

Ladies and gentlemen! The Amazing Matarazzo Brothers!

Last year, it was George Matarazzo, the landscape architect from Concord, N.H.—#409 on our list.

This year, it's brother Stanley, from Atlanta, who does international tax consulting for commercial banks—#329.

As kids growing up in New Jersey, Stanley was the studious one, but in the end, it was George who wound up with an advanced degree from Harvard University. George married a young woman from the South, then brought her up North. Stanley married a Northern woman, then brought her South.

This last has been a good year for landscaper George, but as it turns out, not good enough for the INC. 500: he's #574.

It's been a spectacular year, however, for tax consultant Stanley. With many of his bank clients, he earns a percentage of the previously unidentified foreign tax credits—and last year, there were plenty of tax savings. Stanley closed out 1985 with $1.7 million in sales, up from $411,000 the year before.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range* '85	Profit range* '81	No. of employees '85	No. of employees '81	Date founded
306.	**Discovery Toys** (164) Pleasant Hill, CA Educational toys	721%	$37,963	$4,622	D	D	118	24	1978
307.	**Money Market Services** Redwood City, CA On-line market analysis	719	6,147	751	A	A	101	22	1974
308.	**International Recruiting Systems** (458) Van Nuys, CA High-tech search agency	713	1,090	134	D	D	18	5	1973
309.	**Ettwein Construction** (224) Bethlehem, PA Commercial/industrial construction	713	14,342	1,765	E	D	30	20	1978
310.	**TexCom Management Services** San Antonio, TX Equipment leasing	711	16,506	2,036	C	C	30	8	1978
311.	**Telemarketing Systems** Quincy, MA Telephone mktg.	707	847	105	C	F	34	12	1980
312.	**Suburban Landscape Associates** Davenport, IA Landscape architect & contractor	706	1,660	206	D	D	65	8	1981
313.	**Infinite Creations** Bamberg, SC Mfrs. all types of bags	705	1,119	139	A	B	32	22	1977
314.	**General Health** (216) Washington, DC Health-care prods. & svcs.	705	4,216	524	F	F	77	10	1979
315.	**Zack's Famous Frozen Yogurt** Metairie, LA Mfrs. frozen-yogurt mix	704	2,596	323	B	F	41	6	1978
316.	**Southern Office Furniture Distr.** (82) Greensboro, NC Office furniture & design svcs.	698	9,044	1,134	D	D	54	8	1979
317.	**McClanahan** New York, NY Textbook packager	697	3,967	498	A	A	7	3	1976
318.	**Data Base Publications** Austin, TX Publ. computer magazine	697	2,549	320	F	D	26	4	1980
319.	**Software Clearing House** Cincinnati, OH Mkts. systems software	696	3,146	395	D	B	45	7	1979
320.	**CPA Services** (427) Brookfield, WI Publ. CPA newsletters	694	1,112	140	C	F	7	2	1979
321.	**Boiler & Heat Exchange Systems** Chattanooga, TN Industrial steam boilers	691	3,930	497	D	D	38	6	1977
322.	**V. I. P. Structures** (382) Syracuse, NY Architect/developer/contractor	689	12,234	1,551	D	F	105	20	1975
323.	**Dupey Management** (381) Irving, TX Retail art supplies	678	70,000	9,000	D	D	85	27	1977
324.	**Doerr Group Limited** Coldwater, MI Group health sales & adm.	675	3,341	431	D	D	4	1	1980
325.	**Nutrition Management Services** (379) Kimberton, PA Food mgmt. svcs.	672	5,878	761	D	D	231	38	1979
326.	**Mitchell's Management** Atlanta, GA Men's formal wear	671	18,721	2,428	D	D	400	250	1950
327.	**Swintec** (318) East Rutherford, NJ Mfrs. electronic office prods.	668	28,495	3,708	D	D	42	39	1978
328.	**American Business Forms** Glenwood, MN Distr. business forms	667	4,174	544	C	D	12	3	1981
329.	**Matarazzo Associates** Atlanta, GA International tax consulting	664	1,658	217	D	A	4	2	1979
330.	**Integral Systems** (365) Walnut Creek, CA Human-resources software	664	20,620	2,700	C	E	161	60	1972
331.	**Youthland** Columbus, OH Retails children's clothing	662	14,510	1,904	D	D	90	25	1962
332.	**Staubach** (91) Dallas, TX Commercial/investment real estate	662	5,506	723	B	D	95	20	1977
333.	**Ohiocraft Printing** Mansfield, OH Commercial printer	661	2,434	320	D	D	30	10	1970
334.	**Electrical South** Greensboro, NC Mfrs. industrial electronic controls	659	2,922	385	B	F	50	10	1977
335.	**Hornblower Yachts** San Francisco, CA Provides yachts & ships to businesses	658	6,148	811	D	D	30	4	1980
336.	**World Leasing** (222) Ridgewood, NJ Computer-equipment leasing	652	25,457	3,385	B	C	11	6	1976
337.	**Lender's Service** (172) Pittsburgh, PA Real estate appraisals	652	34,373	4,571	D	D	382	109	1967
338.	**RAM Graphics** (209) Alexandria, IN Distr. shirts & trophies	652	3,391	451	F	A	65	25	1976
339.	**Polaris Industries** Minneapolis, MN Recreational/utility vehicles	651	90,000	11,980	B	F	534	117	1981
340.	**GPA Technical Consultants** (413) Cincinnati, OH Engineering consulting	651	22,337	2,974	D	D	453	128	1979

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#373
THE FOREIGN CANDY CO. HULL, IOWA

LYLE VAN ROEKEL

Peter De Yager

First, there was the gummy bear. Then, gummy worms, gummy strawberries, gummy hearts, gummy fish. One young correspondent has suggested gummy trees.

They are among the hottest candy items to come along in years, these chewy bits of color that seem the perfect compromise between a jujube and a gumdrop. And for the second year, they have sufficiently sweetened sales at The Foreign Candy Co. to earn a place on the INC. 500.

Former teacher Peter De Yager discovered the appeal of the gummy products while leading his high-school German-language students on a trip to Europe. His initial instinct was to import several lines of European candies for sale to students and neighbors as a way of raising funds for future class trips. But soon, these fund-raising efforts took on a business momentum all their own, and De Yager and his wife, Betsy, began selling candy through high-school language teachers all over the Midwest from a small office in their basement. It wasn't long before gummy products had become a national fad, and the De Yagers had a nationwide $9-million import business.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
341.	**Forte Industrial Equipment Systems** Cincinnati, OH Automated material-handling systs.	651%	$2,177	$290	B	A	7	1	1980
342.	**One Hour Delivery Service** (235) Dallas, TX One-hour delivery svc.	651	3,205	427	C	C	80	16	1980
343.	**Commonwealth Mortgage** (223) Wellesley Hills, MA Mortgage svc.	647	19,703	2,639	C	C	250	41	1961
344.	**Techne Electronics** (251) Palo Alto, CA Vehicle security systs.	645	2,579	346	E	F	32	30	1975
345.	**Spectrum Systems** Pensacola, FL Air-pollution monitoring svc.	645	767	103	C	A	9	2	1981
346.	**Promark Associates** Teaneck, NJ Direct-mail mgmt. svcs.	645	752	101	D	C	6	3	1979
347.	**Technicomp** (229) Cleveland, OH Technical training svc.	643	1,434	193	D	D	11	5	1979
348.	**BATA Resources** Morristown, NJ Remarkets used IBM computers	640	9,891	1,337	D	D	16	3	1979
349.	**Medallion Construction** Merrimack, NH General contractor	639	8,118	1,098	D	C	60	5	1981
350.	**Metrocall of Delaware** (276) Alexandria, VA Paging & cellular mobile svcs.	638	14,554	1,973	F	C	129	23	1969
351.	**Rainbow Int'l Carpet Dyeing** Waco, TX Franchisor, carpet cleaning	637	3,928	533	D	C	70	5	1981
352.	**Accutest Laboratories** North Brunswick, NJ Environmental testing lab	635	1,500	204	A	E	30	6	1956
353.	**King's Roofing** Portland, OR Roofing	634	1,937	264	D	A	20	5	1979
354.	**Unitec Construction Services** Ann Arbor, MI General contractor	633	4,183	571	D	F	10	7	1955
355.	**Admax** Fort Lauderdale, FL Publ. "for sale by owner" database	632	1,997	273	D	F	50	5	1978
356.	**S. J. Electro Systems** (256) Detroit Lakes, MN Mfrs. alarm systs.	630	2,335	320	B	B	28	10	1975
357.	**Texas Lift Off Correction Ribbon** Dallas, TX Mfrs. typewriter ribbons	629	2,006	275	F	C	27	8	1980
358.	**Mavidon** Stuart, FL Mfrs. insulating prods.	628	1,741	239	D	D	13	2	1980
359.	**Communications Consultants** (55) Virginia Beach, VA Advertising & public relations	628	5,718	785	D	F	29	6	1980
360.	**Integrated Systems** (113) Palo Alto, CA CAE & software dvlpmt.	626	3,080	424	B	C	30	8	1980
361.	**Personal Marketing** Houston, TX Real estate mktg. prods.	626	4,703	648	D	C	78	8	1978
362.	**Birch Research** (67) Coral Springs, FL Media research	626	4,659	642	F	C	75	12	1978
363.	**Byrne & Jones Paving** St. Louis, MO Asphalt paving	623	4,314	597	D	D	50	10	1976
364.	**R&B** (329) Huntingdon Valley, PA Automotive parts & accessories	621	17,204	2,386	D	D	180	30	1978
365.	**Heath Electronic Manufacturing** Glenns Ferry, ID Electronic assembly	621	1,009	140	C	B	40	20	1977
366.	**Daron Packaging Group** (244) Glen Cove, NY Flexible packaging	620	1,447	201	B	A	6	2	1979
367.	**Granada Systems Design** New York, NY Communication software	617	1,592	222	C	A	20	4	1979
368.	**Somerset Printing** (270) Burlingame, CA Commercial printing	617	1,441	201	F	F	17	3	1969
369.	**Administrative Inform. Systs.** (253) Bridgewater, NJ Medical soft/hardware systs.	617	3,366	470	C	E	34	6	1977
370.	**Computer Economics** Carlsbad, CA Publ. newsletter	616	766	107	D	E	4	2	1979
371.	**Three Score** Tucker, GA Catalog advertising	615	12,420	1,738	E	E	79	23	1978
372.	**Eldorado College** Oceanside, CA Business college	612	2,228	313	D	F	31	5	1981
373.	**Foreign Candy** (264) Hull, IA Distr. candies	611	8,738	1,229	C	C	45	16	1978
374.	**TravelCenter** (369) Anchorage, AK Retail travel company	611	126,657	17,819	D	D	370	54	1946
375.	**Lazy Days R. V. Center** Tampa, FL Recreational-vehicle dealer	609	43,290	6,107	D	D	115	30	1976

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#376 TRACKS TO ADVENTURE EL PASO

DON B. STEVENSON

Larry and Maria Olsen

#375, from the last page, will sell you one. And then #376 will plan your vacation.

We're talking RVs here—recreational vehicles. Winnebagos. Pace Arrows. Holiday Ramblers. Vacation homes on wheels. And especially for the growing retirement population in the United States, RVs are the way to go.

Just ask H. K. Wallace, of Lazy Days R. V. Center Inc. (#375). Years ago, he paid $2,000 for a trailer so he could take the family for a vacation in North Carolina. When he arrived back home, he parked it out beside his house in Tampa, and damned if somebody didn't drive by and offer him $4,000 for the rig. Now with $43 million a year in sales, he and his family claim to run the largest single-location RV dealership in the country.

El Paso's Tracks to Adventure picks up from there. Taking a page from the wagon-train sagas, Maria and Larry Olsen organize groups of up to 20 RVs on excursions to Alaska, Canada, Mexico, even New Zealand. "Wagonmasters" lead the tours, "wheelwrights" are there all along the way to take care of any repairs, and "frontiersmen" scout out the campsites and attractions—and the natives.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
376.	**Tracks to Adventure** El Paso, TX Recreational-vehicle tours	606%	$1,003	$142	C	F	12	3	1975
377.	**Brad Cable Electronics** (360) Schenectady, NY Mfrs. cable-TV converters	603	8,864	1,260	C	D	257	54	1976
378.	**Schlott Realtors** (218) Wayne, NJ Real estate brokerage svcs.	602	25,003	3,560	D	D	350	60	1971
379.	**Precision Connector Designs** (179) Winchester, MA Electronic connectors	602	8,338	1,188	C	C	145	35	1977
380.	**Pacific Envelope** (469) Anaheim, CA Mfrs., prints envelopes	602	10,723	1,528	D	C	61	17	1959
381.	**Godick** (248) Philadelphia, PA Certified public accountants	600	1,968	281	D	C	41	11	1980
382.	**Ugly Duckling Rent-A-Car System** (176) Tucson, AZ Rental-car franchising	598	63,500	9,100	D	D	30	8	1978
383.	**Communications Packaging** Denver, CO Packaging for software, cassettes	596	8,335	1,197	D	D	135	2	1980
384.	**National Computer Print** (333) Birmingham, AL Loan payment books	596	23,601	3,393	A	C	210	75	1974
385.	**All Pro Vending** Dallas, TX Vending machines & food svcs.	591	3,137	454	C	F	17	9	1980
386.	**Temporary Solutions** (189) Manassas, VA Temporary-employment svc.	590	2,471	358	D	D	20	3	1980
387.	**Network Data Systems** Flushing, MI Dvlps. software	589	1,110	161	C	F	23	4	1980
388.	**Steinbecker Brothers** Greeley, CO General commodity trucking	588	26,824	3,897	F	F	346	185	1966
389.	**Contemporary Office Products** Cleveland, OH Office supplies & furniture	587	2,753	401	D	D	20	7	1981
390.	**David W. Buker** (423) Antioch, IL Mgmt. education & consulting	585	1,493	218	A	A	5	2	1979
391.	**Physicians Weight Loss Centers** (171) Akron, OH Franchisor weight-loss ctrs.	585	7,306	1,067	B	B	29	9	1979
392.	**John Yantis** (261) San Antonio, TX Heavy/utility contractor	584	11,939	1,745	C	F	105	21	1965
393.	**Keystone Leasing** West Hartford, CT Industrial-equipment leasing	583	1,871	274	A	A	8	3	1977
394.	**DPN Enterprises** Skillman, NJ Real estate publishing/consulting	581	1,090	160	A	F	18	12	1979
395.	**Personal Performance Consultants** St. Louis, MO Employee assistance progs.	579	5,599	825	D	D	95	25	1975
396.	**Information Builders** (200) New York, NY Mfrs. computer software	578	72,374	10,674	A	A	325	102	1975
397.	**Maxima** (213) Rockville, MD Integrated info. tech., svcs.	574	27,141	4,027	D	C	435	108	1978
398.	**Consolidated Glass & Mirror** Galax, VA Glass fabricator & mirror silvering	571	10,374	1,546	D	C	309	68	1979
399.	**Sunbelt Distributors** (287) Houston, TX Frozen food	571	11,220	1,673	D	D	52	10	1977
400.	**Weingart** (307) Fort Wayne, IN Mfrs. testing machines	569	7,521	1,125	C	F	211	20	1971
401.	**CTS Associates** Detroit, MI Advertising agency	565	1,642	247	C	F	8	2	1981
402.	**Omega** (322) Concord, CA Security & control systs.	561	3,145	476	D	D	35	12	1973
403.	**Woodsmith Publishing** (106) Des Moines, IA Woodworking magazine	559	3,063	465	D	F	17	7	1978
404.	**Placers** Wilmington, DE Executive search & temp. help	557	4,257	648	D	D	24	16	1972
405.	**Worth Transport** Toledo, OH Trucking	556	1,496	228	C	F	13	4	1980
406.	**Watkins Manufacturing** (150) Carlsbad, CA Mfrs. hydrotherapy spas	555	20,300	3,100	B	B	170	47	1977
407.	**Lost Arrow** (388) Ventura, CA Clothing & climbing equip.	554	31,156	4,765	D	D	175	70	1971
408.	**Hanley-Wood** (156) Washington, DC Magazine publishing	552	10,797	1,656	D	C	55	6	1976
409.	**Fiesta Salons** (412) Columbus, OH Hair & tanning salons	550	17,235	2,653	D	D	1,118	266	1974
410.	**Infotec Development** (199) Costa Mesa, CA Computer systs. engineering	549	11,775	1,815	D	C	225	58	1978

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#417
ETERNA-LINE CORP. BOISE, IDAHO

ANDREW RAFKIND

Steve Neighbors

Did you ever wonder who paints the lines on highways? Meet Steve Neighbors, who has put stripes on so many roads that he's now earned a place on the INC. 500.

To hear it from Neighbors, the life of the highway striper is not without its trials. It's not uncommon for passing motorists to smudge your work or to try to force you from your appointed path or even to spit upon your person. And while television monitors now help chart the course of most striping machines, the results are not always perfect: on more than one occasion, Neighbors's workers have painted themselves into the soft shoulder (yes, there is a highway-stripe paint remover).

Neighbors sends his Eterna-Line machinery and crew chiefs around the country, painting stripes, grinding down bumps, and raising up sunken sections of highways. Local hires are often used to fill out the crews—with mixed results. "When we go South, it means we have to hire two or three people to do the job that could be done by one person from the North," Neighbors reports. "The only state we don't like to work in so much is California. The people there are self-oriented. We like to develop a team effort, but it's tough to do that in California."

		Sales growth 1981–85			Profit range*		No. of employees		
	Company (1985 rank) Business description	Percent increase	'85 sales ($000)	'81 sales ($000)	'85	'81	'85	'81	Date founded
411.	**Culver Personnel Agency** (332) San Diego, CA Placement firm	548%	$1,347	$208	D	D	46	9	1979
412.	**E. T. S. & L.** South Dennis, MA Landscape construction	546	1,582	245	D	E	29	9	1977
413.	**Mandex** (463) Springfield, VA Telecommunications engineering	546	16,110	2,495	D	D	169	65	1974
414.	**San Antonio Steel** San Antonio, TX Steel construction materials	545	5,031	780	D	E	14	5	1965
415.	**Creel Morrell** (341) Houston, TX Graphic design	545	2,483	385	C	C	35	15	1979
416.	**DSI Computer Services** Fort Lauderdale, FL Installs, repairs computer equip.	543	1,113	173	D	A	12	1	1980
417.	**Eterna-Line** (457) Boise, ID Specialty contractor	542	5,671	884	C	D	25	5	1972
418.	**University Computing Services** Newark, DE Computing software & consulting	541	1,512	236	C	D	10	6	1979
419.	**Engineered Data Environments** (166) Pleasanton, CA Mfr.'s rep for computer support	539	15,590	2,441	C	D	30	8	1980
420.	**DBMS** Naperville, IL Full-service software	537	18,671	2,929	C	D	270	42	1979
421.	**Blind Maker** Austin, TX Window coverings fabricator	537	4,003	628	D	F	70	15	1981
422.	**Publications & Communications** (181) Austin, TX Publishes computer magazine	537	3,083	484	B	A	43	10	1979
423.	**Pyrotect** Minneapolis, MN Mfrs. race-car driver's safety gear	536	1,241	195	C	F	13	2	1979
424.	**Avanti Communications** Newport, RI Mfrs. telecommunications equip.	534	17,251	2,719	C	F	220	51	1977
425.	**MSI International** Atlanta, GA Temp. help, executive search	534	14,837	2,341	D	F	141	81	1968
426.	**Summit Associated Marketing** Lee's Summit, MO Marketing, advertising, & research	533	2,907	459	D	E	44	11	1978
427.	**Life-Link International** (125) Jackson Hole, WY Sporting-goods equip.	532	2,416	382	D	F	42	8	1978
428.	**TABS Associates** (220) Abingdon, MD Mail presort svc. bureau	532	9,407	1,488	D	B	700	475	1977
429.	**SAS Institute** (227) Cary, NC Fourth-generation software	531	70,971	11,240	A	A	600	125	1976
430.	**Comprehensive Packaging** Atlanta, GA Packaging graphics design	529	4,052	644	C	B	48	12	1980
431.	**Comp-U-Staff** (354) Towson, MD Professional svcs./consulting	529	13,428	2,135	D	D	210	45	1978
432.	**Fairview Sintered Metals** St. Mary's, PA Mfrs. powdered-metal parts	529	2,987	475	D	F	44	23	1978
433.	**Intile Designs** Houston, TX Ceramic tiles & marble	528	5,156	821	D	F	42	3	1980
434.	**Tire Kingdom** West Palm Beach, FL Tire retailer & auto svcs.	527	61,889	9,864	D	D	420	200	1978
435.	**SW Marketing Associates** Dallas, TX Mfrs., supplies electronic equip.	527	1,260	201	C	D	7	3	1980
436.	**Bertucci's** Waltham, MA Gourmet-pizza restaurant chain	526	1,691	270	C	D	25	2	1981
437.	**Harpers Aero S.E. Distribution** (436) Miami, FL Specialized delivery svc.	526	11,939	1,907	D	D	275	145	1972
438.	**System EDM** Mason, OH Laser machining	526	1,433	229	B	F	20	7	1979
439.	**WCO** Bradenton, FL Distr. ophthalmic equip.	525	22,873	3,659	D	D	145	35	1972
440.	**Motivational Marketing** Paramus, NJ Software sales & consulting	525	3,750	600	A	A	50	15	1978
441.	**National TV & Appliance** (464) Salem, VA TV & appliance sales & svc.	524	9,423	1,509	D	D	40	20	1975
442.	**Parencorp** Brookline, MA Real estate dvlpmt.	524	10,653	1,708	D	D	9	3	1978
443.	**Varitel Video** (61) San Francisco, CA Video svcs.	524	4,627	742	D	A	45	3	1979
444.	**Colonial Circuits** Fredericksburg, VA Mfrs. printed circuit boards	523	3,901	626	C	C	66	29	1980
445.	**Perfect Courier** (243) New York, NY Courier svc.	522	17,973	2,889	C	C	500	250	1979

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
				'85	'81	'85	'81	
446. **Stained Glass Overlay** Costa Mesa, CA Designer glass prods.	522%	$4,391	$706	C	B	16	5	1980
447. **Ford's Chemical & Service** Pasadena, TX Pesticides	521	9,081	1,463	D	D	52	35	1972
448. **Proforma** (313) Cleveland, OH Distr. office prods., bus. forms	519	4,726	763	D	C	25	18	1978
449. **Hickerson's CATV Installation** Raytown, MO Cable-TV installation	516	1,386	225	D	C	81	21	1979
450. **Baker Communications** (186) Houston, TX Training & development	516	3,868	628	A	A	18	3	1979
451. **Ossian Chemical** Davenport, IA Specialty chemical prods.	515	4,252	691	D	C	9	6	1974
452. **PNS** (308) Racine, WI Packaging & shipping franchises	514	3,837	625	D	F	6	4	1976
453. **Century Marketing** (130) Bowling Green, OH Mfrs. custom-printed labels	514	4,860	792	F	F	120	35	1980
454. **Schreiber** (157) Trussville, AL Wastewater-treatment equip.	512	9,622	1,571	C	C	97	20	1979
455. **Akal Security** (141) Santa Cruz, NM Security guard, investigative svc.	512	2,168	354	D	D	140	20	1980
456. **Kronos** (146) Waltham, MA Computerized time-accounting systs.	511	11,839	1,937	D	F	165	25	1977
457. **Bradley Printing** Des Plaines, IL Commercial printing	510	65,736	10,785	D	D	525	140	1963
458. **Dencom Systems** Los Angeles, CA Mkts. & svces. telephone systs.	507	826	136	C	C	13	1	1981
459. **Local Data** (442) Torrance, CA Mfrs. protocol converters	507	8,472	1,395	D	D	104	14	1978
460. **Management Dynamics** Yonkers, NY Custom software dvlpmt.	506	981	162	D	E	14	4	1980
461. **American List Counsel** (247) Princeton, NJ Mailing-list broker	505	16,261	2,687	D	D	58	18	1978
462. **Sage Federal Systems** (269) Rockville, MD Computer programming svc.	504	13,209	2,188	D	D	86	40	1974
463. **LabelGraphics** (289) Portland, OR Mfrs. labels	503	2,750	456	B	B	42	10	1979
464. **Construction Systems Associates** Marietta, GA Computerized plant modeling	500	2,782	464	F	D	36	9	1976
465. **NELCO** Richmond, VA Computer leasing	499	9,656	1,613	D	B	6	1	1979
466. **Calibrake** (319) Independence, MO Remfrs. auto components	495	1,744	293	D	C	33	8	1979
467. **Hill International** (410) Willingboro, NJ Mgmt. consultants	494	42,200	7,100	C	C	385	131	1976
468. **Centrac Associates** (304) Seattle, WA Construction mgmt. consultants	494	4,562	768	D	C	86	20	1978
469. **Ropes** Kokomo, IN Distr. material for water systs.	493	1,417	239	C	F	8	2	1981
470. **Accu Bite** Lansing, MI Distr., mkts. dental prods.	491	1,701	288	D	C	22	7	1977
471. **Eastern Waste Industries** (490) Annapolis, MD Trash removal	490	25,972	4,399	D	F	275	99	1978
472. **Elkington & Keltner Group** (79) Memphis, TN Real estate developer	489	26,513	4,501	E	F	60	20	1974
473. **Landscapes Unlimited** Lincoln, NB Golf-course construction	488	3,798	646	B	C	12	4	1976
474. **WPDS** (257) San Diego, CA Dvlps. computer application systs.	488	7,121	1,212	D	E	25	8	1979
475. **Donnybrook Building Supply** (459) Fairbanks, AK Building materials	487	17,057	2,908	D	D	95	25	1975
476. **Sound Security** Portland, OR Sells security systems	482	1,262	217	D	D	24	9	1978
477. **John J. King Provisions** (398) Bohemia, NY Distr. wholesale food prods.	481	9,958	1,715	D	D	24	6	1976
478. **Computer Methods** Livonia, MI Software sales & svc.	481	7,443	1,282	F	D	170	40	1977
479. **S & M Press** Garfield, NJ Commercial printing	480	742	128	A	A	10	5	1975
480. **Miller Business Systems** (495) Arlington, TX Office supplies & equip.	476	43,869	7,618	D	D	300	89	1967

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

#461
AMERICAN LIST COUNSEL INC. PRINCETON, N.J.

KEITH GLASGOW

Donn Rappaport and Liza Price

Our nominee for the most genteel INC. 500 business is an old friend, the American List Counsel, whose offices are located in an historic 18th-century farmhouse in one of the most pleasant university towns in the United States. But don't be fooled. This aggressive $16-million mailing-list broker is riding the wave of a retailing revolution that finds one out of every two U.S. consumers shopping from home by way of catalogs, 800-numbers, credit cards, and computers. The competition for home shoppers, in fact, is so intense that the price of quality lists has reached as high as 20¢ per name.

Even before there was an American List Counsel, Liza Price was the list broker for INC.'s publisher. Now in her own business with husband Donn Rappaport, Price's clients include retailers Neiman-Marcus and Bergdorf Goodman, fruit sellers Harry and David, and magazines ranging from *Ms.* to *U.S. News & World Report*. It is the company's third year on the INC. 500.

#488
T H HILL ASSOCIATES INC. HOUSTON

DAN FORD CONNOLLY

Tom Hill

Last year, he was #221. This year, it's #488. And if things keep going the way they've been going, Tom Hill figures it will be a miracle if he qualifies at all in 1987.

Hill is in the oil-field consulting business, and right now, there isn't much oil drilling going on. Not as long as OPEC is selling its oil for less than it costs U.S. companies to take it out of the ground. And certainly not the high-risk, high-cost offshore and critical-environment drilling for which T H Hill Associates offers its specialized consulting services. "We're thinking of diversifying some," Hill says.

	Company (1985 rank) Business description	Sales growth 1981–85 Percent increase	'85 sales ($000)	'81 sales ($000)	Profit range*		No. of employees		Date founded
					'85	'81	'85	'81	
481.	**Russ Pharmaceuticals** Birmingham, AL Distr. pharmaceutical prods.	473%	$1,743	$304	C	F	26	4	1980
482.	**Cincinnati Electrosystems** Loveland, OH Peripheral equip. for automation	473	5,106	891	D	F	95	20	1975
483.	**Roddy Temporary Services** Ann Arbor, MI Temporary-personnel svc.	473	1,289	225	B	C	177	35	1978
484.	**Properties of America** Williamstown, MA Developer	473	5,435	949	D	D	30	10	.1974
485.	**Micro Systems** Fort Walton Beach, FL Defense control systs.	472	1,351	236	C	D	20	8	1976
486.	**TeleAmerica** (422) Northbrook, IL Telemarketing	472	1,652	289	C	D	12	4	1980
487.	**Lombardo Agency** Lancaster, PA Insurance agency & brokerage	471	1,600	280	B	D	5	2	1977
488.	**T H Hill Associates** (221) Houston, TX Mgmt. & eng. consulting	471	4,308	754	B	C	69	12	1980
489.	**Cavecche Eng. & Construction** Los Alamitos, CA Construction rehabilitation	471	3,024	530	D	E	13	14	1973
490.	**Right Associates** Philadelphia, PA Outplacement & reemployment	469	12,106	2,126	D	E	74	14	1980
491.	**Townsend Agency** Arlington Heights, IL Mktg. & advertising svcs.	467	1,497	264	E	E	18	6	1979
492.	**Collier-Jackson** Tampa, FL Newspaper & financial software	466	12,545	2,215	D	F	124	50	1975
493.	**Malcus/Shannon Engineering** Seattle, WA Aeronautical engineering svcs.	466	1,653	292	A	F	17	4	1981
494.	**American Derringer** Waco, TX Stainless-steel firearms	465	571	101	D	F	6	3	1980
495.	**Central Petroleum Transport** (445) Sioux City, IA Common carrier	464	1,287	228	D	D	2	1	1974
496.	**AEI** Burnsville, MN Real estate, oil, & gas	464	14,359	2,546	C	C	22	15	1971
497.	**Sweet Stop** Staten Island, NY Mfrs. & distr. candy novelty items	461	1,572	280	A	D	120	12	1979
498.	**Dorothy's Ruffled Originals** (245) Wilmington, NC Mfrs. & retails curtains	461	10,436	1,860	D	D	195	48	1976
499.	**Corinthian Communications** (432) New York, NY Media buying	460	112,000	20,000	D	D	18	6	1976
500.	**C. M. Harris** Charlotte, NC Insurance agency	459	6,219	1,112	D	F	83	47	1979

*INC. estimate. A. 16% or more; B. 11% to 15%; C. 6% to 10%; D. 1% to 5%; E. Breakeven; F. Loss

HOW THE INC. 500 WERE SELECTED

DILIP CHAUHAN

Sara Baer-Sinnott

For special-projects editor Sara Baer-Sinnott, the INC. 500 is a year-round assignment. Even as one year's list is off to the printer, she is contacting chambers of commerce, accounting firms, venture capitalists, consultants, and trade associations looking for nominations for the next year's tabulation. Requests for nominations also appear in advertisements in INC. and *PR Journal*.

To qualify for the 1986 list, a company must be independent and privately held. The rankings are based on the percentage increase in sales during a five-year period. During the base year (1981), sales must have been between $100,000 and $25 million. And during the fifth year (1985), sales must have been greater than the year before. Rapidly growing companies that were very small in 1981 thus are not eligible for the INC. 500. Neither are companies that go public before the end of their fifth year.

This year, INC. received more qualification forms than ever before. These were verified by phone with company officials and their accountants. The verification is a painstaking task that falls mainly to our summer interns, and while it is not the most intellectually stimulating job, it is also not without its lighter moments and long-term compensations. We remember Chauncy Lennon's question to the chief executive officer of Star Nail Products Inc. about the impact of the housing boom on his sales: it was only then that Chauncy discovered that Star Nail makes acrylic fingernails, not construction spikes. Paul Zurlo, as the junior member of the 500 research team, won the task of putting the thousands of applications in alphabetical order in boxes—which he later dropped on the floor. We remember Jeannie Quinn as the only intern who, against strong peer pressure, resisted the challenge of the daily crossword puzzle. And Anne Davidson thought her call to History Associates Inc. interesting enough to follow up with a successful job application.

Also helping to compile the list this year were Deborah Weeks and Laura Ashe. Hope Tompkins gathered the material for the brief profiles appearing among the listings.

Please note that the information published here is the only material INC. will make available. ☐

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Inc.

THE MAGAZINE FOR
GROWING COMPANIES

JAN. 1987
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The Man Who Shaped Up the U.S. Air Force
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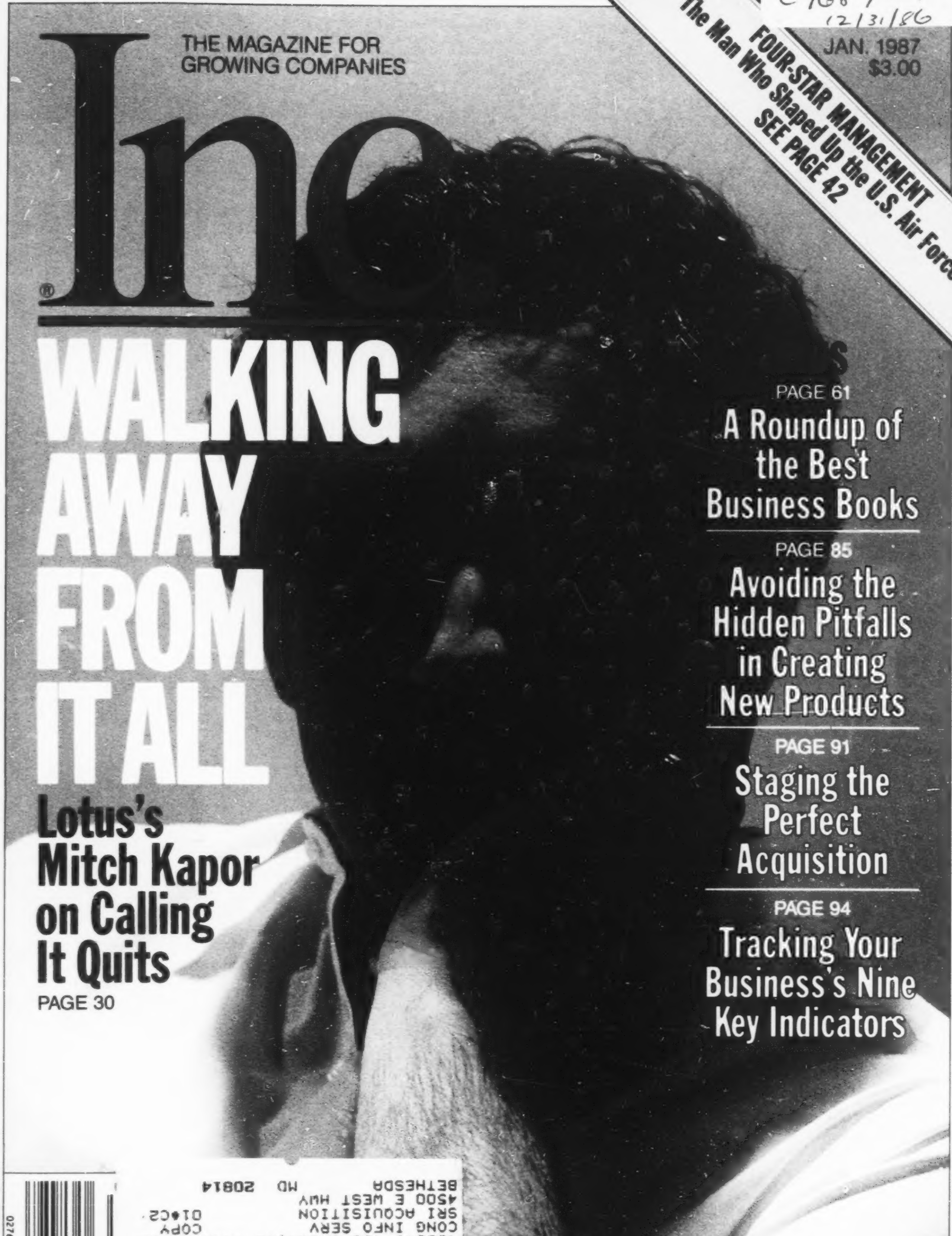

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COVER PHOTOGRAPH
by
Pnina Markman-Bonwitt

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INSIDER

Automatic Transmission

Sure, the U.S. auto industry may not have been suffering from a glut of good ideas lately, but one of the better new ones may be bouncing down from the blue skies over Texas. Last July, Dallas car dealer Carl Westcott went on line with his Automotive Satellite Television Network (ASTN), a subscription broadcast service aimed at the country's 22,000 independent car dealerships. Coupling existing technology with a commitment to daily programming, ASTN is said to be the first business-to-business specialty TV network in America—and already one of the nation's largest satellite networks of any kind.

Westcott funded the start-up to the tune of $6 million and admits he "could've lost $3 million, easy, in the early stages." Such losses seem unlikely now. Featuring one hour's worth of training programs, management seminars, industry news, and other self-help programming on weekdays, ASTN is roaring out of the showroom faster than a turbocharged Corvette. By mid-November, the network had 680 subscribers on board (at $385 per month) and was adding some 50 a week—well on its way to a break-even figure of 1,000 to 1,200. Dealers used to shelling out $300 to $400 per salesperson for training seminars seem more than willing to leave the driving to somebody else.

STEWART CHARLES COHEN

ASTN founder Carl Westcott
A satellite TV service for car dealers

"We're not teaching tricks or gimmicks; we're raising the level of salespeople's professionalism so they can make a career of this," avers Westcott. "Understand that at your typical dealership, 50% of the sales force wasn't there the year before. And our fee is lunch money when you're talking monthly operating budgets of $150,000 and up. If we help you sell one more car a month, we're worth it."

Westcott has already established a relationship with General Motors Corp. that will allow it to provide specialized programming for its dealers.

There is the possibility of extending such microdish service to, say, the hotel business. "I've heard from 8 or 10 other industries," he concedes, "and I'm sure we'll do another deal, but we'll pick our spots real carefully." And no doubt kick the tires. —*Joseph P. Kahn*

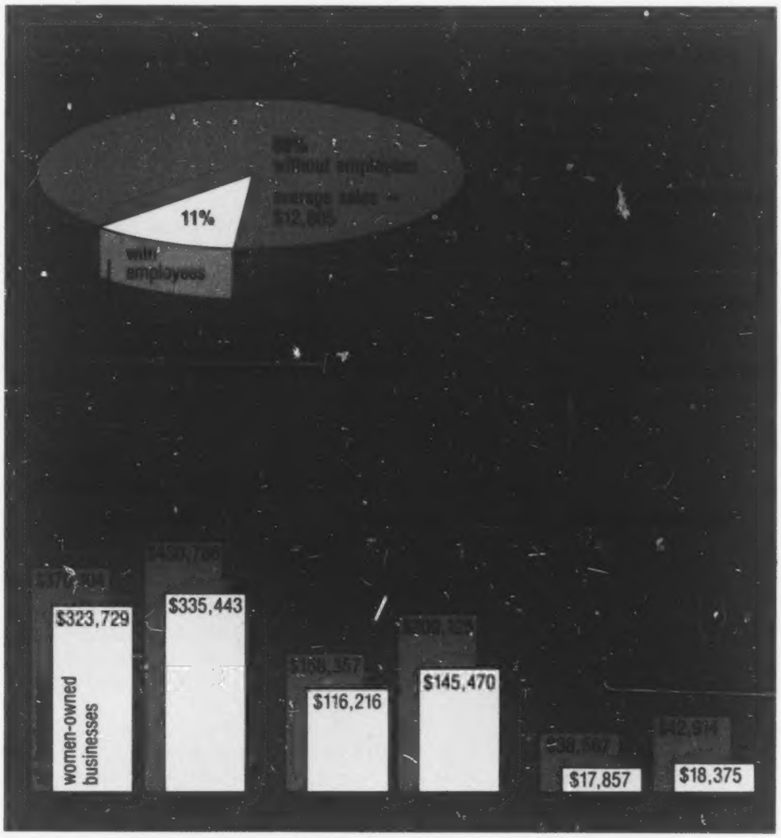
Women-Owned Companies

A new report from the U.S. Bureau of the Census makes official that more and more American businesses are owned by women. Based on 1982 federal tax returns, the bureau figures that 2.9 million, or 24%, of the nation's partnerships, sole proprietorships, and S corporations are owned by women. Even allowing for a change in the Census Bureau's methodology from the last such report back in 1977, that's an increase of more than 50%.

These are, by and large, still very small businesses (see Figure 1), both in terms of revenues and employees. Experts say this is a reflection of the relative newness of so many women-owned enterprises as well as the realities of the service industries around which they cluster (see Figure 2). The most typical woman-owned business is still the sole proprietorship with no employees and sales of less than $13,000. But even among the larger enterprises, the gender gap is widening: over the past five years, growth in the average women-owned partnerships and S corporations has lagged (see Figure 3). Overall, the average business owned by a woman takes in $34,076, or less than half the average sales of the businesses owned by men.

One encouraging figure: there were 668 businesses owned by women with more than 100 employees in 1982. Five years earlier, it was only 437.

DAVID HANNUM



There are increasing numbers of women-owned businesses, but they remain smaller and clustered in service industries.

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of A. J. Canfield Co.

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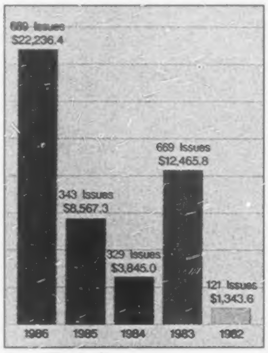

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One of the biggest years, and one of the wildest

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Sometimes firms, like people, have to grow up.

COVER PHOTOGRAPH
by
A. J. Bernstein

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INC.'S ANNUAL SURVEY OF INITIAL PUBLIC OFFERINGS

WALL STREET GOES "HOLLYWOOD"

Last year, we told you investors were looking for proven management and a history of solid performance. Well, they changed their minds.

BY BRUCE G. POSNER

THE CORNER OF WALL STREET AND VINE

Entertainment companies steal the limelight.

☆ What is it about the movies that makes otherwise rational men and women want to own a piece of them? Damned if we know, but a slew of glitzy movie and television companies made their debut on Wall Street in 1986, and the fans, well, they just went wild.

Dino De Laurentiis
Curtain raiser

The curtain went up in May, with a $22-million initial public offering by De Laurentiis Entertainment Group Inc., a company headed by big-time producer Dino De Laurentiis—he of *King Kong, Serpico,* and *Ragtime* fame. Never mind that the business had recently lost $1.5 million in the space of only seven months. Or that the prospectus contained a strong warning about the company's ability to meet interest payments. Or that future releases might be box-office clunkers. (DeLaurentiis, remember, is also the guy who brought us the immortal remake of *Hurricane.)* None of that mattered, as the stock climbed from its offering price of $12 a share to $19.25 within a few weeks.

Ron Howard
Splash maker

By then, Wall Street was beginning to resemble the Sidewalk of Stars. July, for example, brought a $13.3-million IPO from Imagine Films Entertainment Inc., a company formed by Hollywood producer Brian Grazer and actor-turned-director Ron Howard, better known, perhaps, as "Richie Cunningham" on "Happy Days." In the past two years, Grazer and Howard have collaborated on *Splash* and worked separately on such movies as *Spies Like Us* and *Cocoon.* "Neither Mr. Grazer nor Mr. Howard has had any material prior experience [running] a business enterprise," warned the prospectus. Nor, it continued, would there would be much of a business without them. But fans weren't dissuaded: in a few weeks, the stock rose from $8 to $14.75.

Then came New Line Cinema Corp., which raised $6.4 million with its IPO in September, largely on the strength of such low-budget classics as *A Nightmare on Elm Street* and *Critters.* That was followed by Carolco Pictures Inc., whose principal asset is Rambo. The company was looking for money to finance *Rambo* sequels, a Rambo cartoon show, Rambo toys, and the like. Investors obliged to the tune of $37.3 million—which goes to show that there's no accounting for taste.

Rambo
Top draw

POP!

The Popcorn Offering

With so many movie companies going public, it was only a matter of time before a popcorn maker would explode on the scene. Sure enough, one did—Golden Valley Microwave Foods Inc., in Minneapolis, which sold close to $20 million of microwave popcorn in the first six months of 1986. It did even better with its September IPO, which raised $22.4 million at $14 a share, for a high-powered multiple of 23 times earnings. Golden Valley is now busy marketing another product, microwave pancakes—which probably means it's time to go long on syrup.

While movie companies were stealing the limelight, television producers struggled to get their own acts together. The first to file, in September, was Lorimar-Telepictures Entertainment Corp., which spins out the likes of "Dallas," "Falcon Crest," and "Knots Landing," but it withdrew its offering in November. Dick Clark, on the other hand, didn't miss a beat. The veteran host of "American Bandstand," whose company is aptly named Dick Clark Productions Inc., hit the Street with a $7.2-million issue in early January 1987.

Dick Clark
Beat keeper

Will these newly public companies live up to their billings? Will the hits keep on coming? Harold Vogel, Merrill Lynch Capital Markets's entertainment industry analyst, has his doubts. Strip away the glamour, he says, and "there isn't much for investors to look at on a balance sheet." But, hey, if you've got Sylvester Stallone, who needs a balance sheet?

THE CULT OF PERSONALITY

What some investors won't do to stand by their man.

☆ You can go a long way on Wall Street with a good story, and—when it comes to stories—Michael D. Dingman's ranks right up there with "Snow White and the Seven Dwarfs." Dingman is the chief executive of The Henley Group Inc. If you don't recognize the company's name, that may be because it didn't even exist until a few months prior to the offering. Then Allied-Signal Inc. decided to spin off some 35 of its turkeys, and we do mean gobblers. We're talking here about businesses that, as a group, lost $65.4 million in 1985. Dingman took them over and brought the collection public for $1.2 billion in May, one of the largest IPOs in history.

M. D. Dingman
The manager with the magic touch

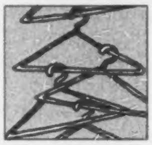
You say that's preposterous? You ask how such a company could possibly be worth $21.25 per share? In the minds of investors, the answer lay in Dingman.

A tall, balding man of 54, Dingman had spent the early part of his career doing deals on Wall Street. During the 1970s, he decided to try his hand at empire-building and put together a conglomerate called Wheelabrator-Frye Inc., now owned by Allied-Signal. The effort won the hearts and minds of investors, especially those with money in Dingman's company. A dollar invested in Wheelabrator-Frye back in 1971 would be worth close to $7 today.

Of course, there's no guarantee that Dingman will be able to do it again, and he hasn't been very specific about his plans. But somebody out there must love him. At the year's end, the stock was still trading at a point or two over its offering price—with no performance to show for it.

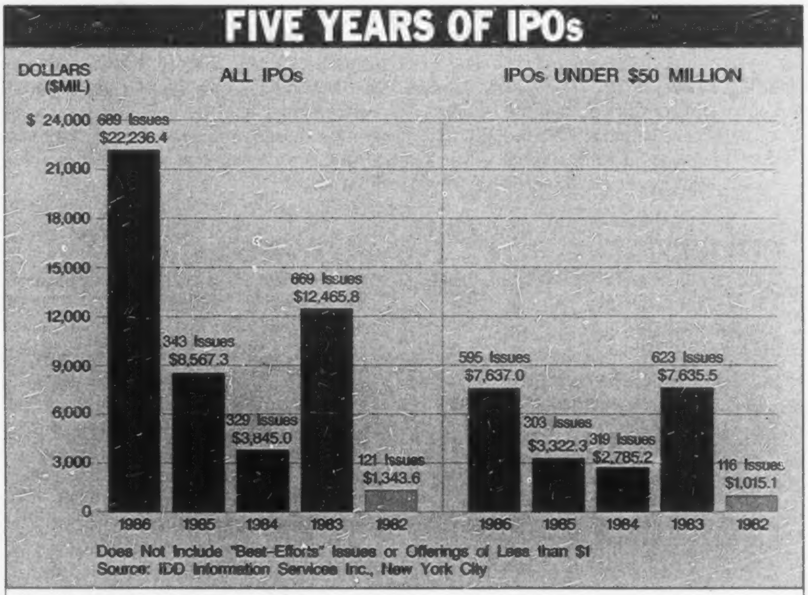
NO STARCH

The Dry Cleaner Offering



One of the glamour IPOs of 1985 was Roto-Rooter Inc., the drain-and-sewer cleaner, so we probably shouldn't be surprised that a dry cleaner would take the plunge in 1986. Dryclean USA Inc. owns or franchises stores in five states and wants to move into new markets like New York, Chicago, and Washington, D.C., where there certainly are a lot of suits to clean. In any case, it had little trouble selling its December offering of $11.5 million, one of the few times that investors didn't mind being taken to the cleaners.

FIVE YEARS OF IPOs



Does Not Include "Best-Efforts" Issues or Offerings of Less than $1
Source: IDD Information Services Inc., New York City

How big was it? From the chart on the left, you'd think 1986 was far and away the best year ever to go public. For megabuck IPOs, it was. Of the 689 IPOs in 1986, 94 accounted for nearly $15 billion of the $22.2 billion raised. But if you factor out deals of more than $50 million (chart on the right), the 1986 market—while still very active—was not much bigger than that of 1983.

BUY ME

The Money Manager Offering

If you've ever watched PBS's "Wall Street Week," you probably know the name and face of Martin E. Zweig. He's a regular guest on the show. Last year, Zweig decided to take himself public. Initially, he wanted $65 million for The Zweig Fund Inc., an investment pool geared toward capital appreciation. What he got was $300 million—good for around $30 million a year in advisory fees. Can The Rukeyser Fund be far behind?

LOOK, MA, NO SALES

Customers? Contracts? Who needs 'em?

☆ It used to be that a company couldn't even begin to look for equity without having something to show investors—a product, sales, profits, that sort of stuff. These days, however, public investors aren't so picky, as witnessed by some of the IPOs that sailed through the market in 1986.

Last summer, for example, a company called Flores de New Mexico Inc., in Las Cruces, N.M., managed to raise $3.6 million, despite the fact that it had no sales. Granted, there is a huge market for flowers, and the sunny Southwest is no doubt an ideal place to grow them. But Flores didn't even have contracts to supply anyone, and—as the prospectus calmly pointed out—there were no guarantees that prices would cover costs. Undeterred, investors paid $6 a share for a chance to see what would happen.

Investors also provided $3 million to a profitless start-up named The Fresh Juice Co., located in Great Neck, N.Y. In this case, there was at least a product—"fresh-squeezed" orange juice, frozen in plastic bottles for shipment to stores. The company had been market-testing the stuff in the New York City area, where people had been willing to pay $1.99 a liter. Considering that the stock came out at $5.50 per share, the question of the hour is, Who got the better deal?

JUST PIK'T
ORANGE JUICE
FRESH SQUEEZED

Fresh Juice Co.
A product, but no profits

BOW-WOW

The Dog Food Offering

100% NATURAL

You know a market's hot when you start getting IPOs of companies that specialize in all-natural treats for dogs and cats. That one turned up in February, when CherAmi Natural Pet Foods Inc., in Larchmont, N.Y., managed to sell a $1-million offering. According to the prospectus, the company needed the money to get its message across to pet owners who just weren't convinced that natural pet food is all it's cracked up to be. Investors bought it. Maybe they were in heat.

UNDERWRITING THE UNDERWRITERS

Some of the biggest deal makers around made their own deals.

☆ In days of yore, investment banking was the most private of private clubs, complete with leather chairs, oak tables, and after-dinner brandy. What mattered were contacts, longtime relationships, and the ability to find and assemble deals. All that has changed, however, and 1986 saw some of the biggest names in the business venturing into the public arena, firms like Morgan Stanley Group Inc. and L. F. Rothschild, Unterberg, Towbin Holdings Inc.

Perhaps the biggest shocker was the March IPO of Morgan Stanley, one of the clubbiest of firms since its founding by Henry S. Morgan and five partners in 1935. It approached would-be investors for $163.8 million. Its plea was simple: with the investment banking business growing ever more crowded, the company needed outside capital to remain competitive. That same refrain was sounded by Alex. Brown Inc., the descendent of an old-line Baltimore firm, which raised $51 million.

Henry S. Morgan
Good-bye to the private club

L. F. Rothschild, on the other hand, added a few notes of its own. The company's prospectus admitted that, competition aside, more than $95 million of the $157.4-million offering would go to a selling shareholder with which one director was affiliated. This must have come as a surprise to some of the clients whom Rothschild had taken public over the years. Underwriters have been known to raise eyebrows when owners want to dump stock. But, hey, investment bankers have tuition bills too, you know.

CAN YOU GET IT FOR ME RETAIL?

From checkout stands to the living-room mall, retailers had a field day.

☆ We Americans may not manufacture as much as we used to, but we sure haven't lost our knack for buying, and Wall Street acknowledged this dubious reality by making 1986 a banner year for retailers and wholesalers. Some 59 of them raised $2 billion in IPOs during the year—more than double the total raised in 1985. The offerers were generally smaller, younger, and less profitable than in years past, suggesting that retailing has, at least temporarily, arrived.

HOME SHOPPING CLUB

The Home Shopping Network studio
Selling to America's living rooms

Especially hot were specialty retailers targeting the yuppie market. For example, $12.6 million went into stock offered by Tuesday Morning Inc., a Dallas discounter of close-out merchandise. Another $42 million went into the offering by Lands' End Inc., the Dodgeville, Wis., mail-order firm that features items such as soft luggage and rugby shirts. J. Bildner & Sons Inc., an upscale grocer based in Boston, raised $18.9 million in September, despite skimpy fiscal 1986 profits of $111,848—giving the company a price/earnings ratio of 169 to one.

But the big news was the frenzy over home shopping, touched off by the astonishing success of the Home Shopping Network Inc.'s (HSN) IPO in May. Here was a company that had been national for less than a year, whose programming (if you can call it that) had all the production values of a late-night TV ad for "The Most Popular Country and Western Hits of the Century." A rational person might have thought twice before investing in such a stock. After all, couldn't someone else come along with a less hokey way to peddle the diamond bracelets and exercise machines that Americans were apparently so desperate to buy over the airwaves? What was to stop classier competitors from eating HSN for breakfast?

Investors weren't concerned. Issued at $18, shares skyrocketed above $42 by the end of the first day, and reached $108 before the end of June. Neither the underwriters nor the company's managers could explain all the excitement.

But, as it turned out, they did have to worry about competitors, a dozen of which managed to rack up more than $400 million in sales during 1986. One of them, moreover, slipped quietly into the public market during September—a start-up named QVC Network Inc. Stressing its intention to concentrate on products unavailable elsewhere and to maintain high quality standards, QVC raised $25 million. Shortly thereafter, Sears, Roebuck & Co. announced plans to offer its products on QVC's shopping programs and took options to buy a controlling interest in the company.

Where this will lead is anybody's guess. Home shopping may indeed turn America into a living-room mall, changing forever the way we shop. Then again, it may go down the same path as hula hoops and video games. But if you'd like to get a pair of earrings just like the ones Burt Reynolds bought for his mom, you'd better call now. Operators are standing by, and the supply is limited.

RIM SHOT

The Celtics Offering

Bostonians will spend a cold night on Causeway Street to buy play-off tickets for their Celtics, but there were a lot of empty seats when the team went public in December. At $18.50 per unit, or 34 times earnings, the price of admission was just too high—especially considering the ages of the starting five. The $48.1-million issue sold out, all right, but mainly to investors outside New England. Now all they need is the next Larry Bird.

HOT TIPS

The Consultant Offerings

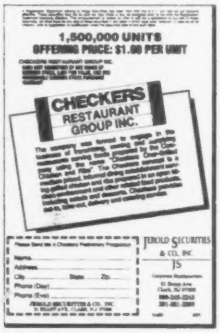
EVALUATION:
BUY US

A consultant, they say, is someone who borrows your watch and then tells you what time it is. Well, the watch wasn't enough. A number of consultants are cleaning up with IPOs. Philip Crosby Associates Inc., the quality-control specialists, raised $13 million in late 1985—with $4.8 million going to selling shareholders. Insiders did even better in last summer's $11.6-million IPO from the Gartner Group Inc., cashing in to the tune of $6.8 million.

10 SHARES TO GO

At one restaurant, the special was printed on a tombstone.

☆ Ben & Jerry's Homemade Inc., the Vermont-based ice-cream maker with the down-home flavor, made financing history a few years ago when it invited local patrons to "get a scoop of the action" and buy its stock. The technique was so effective from both a marketing and capital-raising standpoint that a New York City restaurant chain has begun serving similar fare along with its usual menu of barbecued chicken and ribs. The chain, Checkers Restaurant Group Inc., decided to go public last summer and placed announcements of the impending IPO on its restaurants' front counters, right next to the take-out menus. While patrons waited for their ribs and wings, they could read about the company's plans to expand through franchising and to begin marketing its sauces. (Subsequently, Checkers replaced the flyers with a traditional tombstone ad.)



1,500,000 UNITS
OFFERING PRICE: $1.00 PER UNIT

CHECKERS
RESTAURANT
GROUP INC.

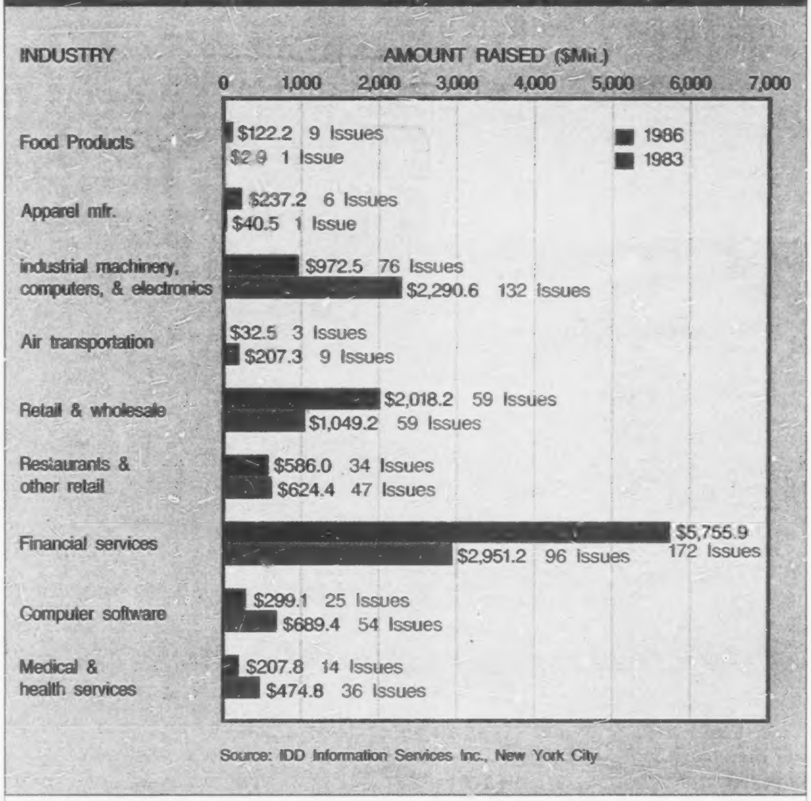
Name
Address
City State Zip
Phone (Day)
Phone (Eve)

JEROLD SECURITIES
& CO. INC
JS

Counter offer
Take one home

The underwriter finds it all, well, finger-licking good. "I happen to like their grilled chicken," says Lance Galant, a vice-president of Jerold Securities & Co., which is managing the $1.5-million offering. "And my wife loves their chicken salad. We eat their food maybe three nights a week."

THE INDUSTRY MIX: 1986 AND 1983



Source: IDD Information Services Inc., New York City

Who got the bucks? The initial public offering market being the trendy place it is, industries have a way of falling in and out of investors' favor from year to year. As the chart above suggests, consumer-oriented new issues (food products, apparel manufacturers, retailers and wholesalers, and restaurants) were about as popular in 1986 as technology offerings (industrial machinery, computers and electronics, and computer software) had been in the previous benchmark year of 1983. All other industries were dwarfed, however, by the boom in financial-service IPOs.

KID STUFF

If your business was child's play, investors were interested.

☆ When the bulls are running on Wall Street, even a bear can do well in the market. Well, not just *any* bear, perhaps, but then Teddy Ruxpin isn't just any bear. He's cute and furry and moves his eyes, nose, and mouth, while saying things like, "You have to earn the things worth having." He was also the hit of the 1985 Christmas season, pulling down sales of $93 million, and profits of more than $8 million, in just eight months. That enabled his creator, Worlds of Wonder Inc., to do a $108-million IPO in June, leaving the selling shareholders a cool $33.7 million richer.

Of course, it didn't hurt that, by then, the company was already getting ready to trot out its Christmas '86 line, including a talking Charlie Brown and a soon-to-be popular, if rather macabre, high-tech game called Lazer Tag.

Teddy Ruxpin, the golden bear
Sales of $93 million, and an $108-million IPO

Worlds of Wonder wasn't the only toy company to go public during 1986, nor did it have the only bear. Nolan Bushnell's Axlon Inc. featured its own A G Bear prominently on the inside cover of its prospectus. Unfortunately, the document also reported the grizzly details of Axlon's five and a half years of losses. Even so, investors bought out the $10.8-million offering, as well as the $48-million IPO of the Universal Matchbox Group Ltd., maker of Matchbox toys.

It was not all child's play in the 1986 market, however. Child's education did all right, too. A start-up called Kid's Computer College Inc. raised $360,000 to establish an after-school computer-training facility in Cinnaminson, N.J., for youngsters from grades four and up. But that was kid stuff compared to American Learning Corp., in Huntington Beach, Calif., whose IPO brought in $8.5 million to finance construction of centers where school-age children can receive supplemental reading and math instruction.

HOW IPO INVESTORS PICK THEIR STOCKS

One thing they don't do is read prospectuses.

☆ Every IPO market has its fads, and 1986 had more than most—which makes you wonder about the investors who snap up new issues. Some of them, of course, are institutional money managers. But what about the private individuals? Who are they, and how do they pick their stocks? Hoping for insights, we talked to Robert J. Shiller of Yale University, who—with his colleague John Pound—has done a new study on IPO investors.

Robert J. Shiller of Yale
"You'd better have a story."

INC.: Tell us about your research.

SHILLER: Well, we picked a company that went public in May 1985, and we contacted 200 of the approximately 1,000 shareholders who invested in the company. Unfortunately, I can't mention the company's name, but I can say it's in retailing. During the summer of 1986, we sent out a questionnaire and three follow-up letters. We got 141 responses, 132 of which were deemed usable.

INC.: What did you find out?

SHILLER: Among other things, we found out that IPO investors generally don't read prospectuses. Only 30% said they read company materials, like a prospectus, before investing.

INC.: So they just happened to like the business?

SHILLER: No, few of them even care about the business. In fact, only 21% paid attention to things like price/earnings ratios or other measures of value. The largest group, around 50%, said they were primarily influenced by the kinds of stocks that were attractive to other investors. They buy IPOs because they think the stock will do well, or because other companies in the field are doing well. They also rely heavily on what friends and co-workers have to say.

INC.: Sounds like a crapshoot.

SHILLER: It's certainly not what you would expect if you believe that financial assets accurately reflect underlying value.

INC.: What does this say to companies thinking about going public?

SHILLER: It says you'd better have a story that the man in the street can understand. The most common way people find out about IPOs is through word of mouth. Forty-five percent of the IPO investors we surveyed knew of someone who had bought the stock, versus 28% for investors in general. That's why some people refer to IPOs as "story stocks."

INC.: And if you don't have a story?

SHILLER: Well, it's going to be harder to raise money with an IPO. It's as simple as that. Your story doesn't have to be the most exciting one in the world. In fact, it can be pretty mundane, like making parts for machine tools. But it has to be a story people can latch on to, that's repeatable. Otherwise, it won't spread.

CHOPPED LIVER

The Deli Offering

CHAPTER 11
THE SUB GOES UNDER

It used to be harder to get a decent chopped liver sandwich in southern California than to find a plumber on Sunday. Then along came Harold Butler, who began setting up New York-style delis all over southern California under the name of Hershel's Deli & Bakery Inc. Last summer, Butler planned to take the chain public in a $8-million offering, but the deal wound up in the soup. Shortly after pulling the offering, the company went Chapter 11. Since then, it's been strictly cold turkey.

THE 10 BEST-PERFORMING IPOs OF 1986

Rank & Company	Offer Size ($ Mil.)	Adjusted Price	Price 12/31/86	% Change
1. Home Shopping Network Mkts. consumer prods. on TV	$36.00	6	37 1/8	519%
2. ATI Medical Rents medical equip.	3.00	2	7 1/8	256
3. Enviropact Environ. consulting svc.	1.95	3 1/4	10 1/4	215
4. Sigma Designs Mfrs. & mkts. computer prods.	5.75	5 3/4	17 3/4	209
5. Flores de New Mexico Grows & sells plants	3.60	4	12	200
6. Nutmeg Industries Designs & mfrs. sweaters, logos	4.00	5	14 1/2	190
7. Nationwide Cellular Services Operates cellular-telephone svc.	2.50	5	13 1/4	165
8. ICN BioMedicals Mfrs. & mkts. diagnostic prods.	3.36	6	14 15/16	149
9. Adobe Systems Dvlps. computer language	5.55	11	25 7/8	135
10. Microsoft Dvlps. computer software	58.70	21	48 1/4	130

THE 10 WORST-PERFORMING IPOs OF 1986

Rank & Company	Offer Size ($ Mil.)	Adjusted Price	Price 12/31/86	% Change
1. Telequest Mkts. telephones	$13.13	13	3	–77%
2. American Passage Marketing Mkts. consumer prods.	8.50	8 1/2	2	–76
3. First Family Group Operates retail appliance stores	17.50	14	4	–71
4. Dynatem Mfrs. & mkts. microcomputers	3.00	6	1 3/4	–71
5. Good Guys Sells consumer electronics	17.50	14	4 5/8	–67
6. Ivy Medical Mkts. medical equip.	2.00	4	1 11/32	–66
7. Women's Health Ctrs.-America Operates women's health ctrs.	3.60	6	2 1/16	–66
8. Pay 'n Save Operates retail super drugstores	52.00	16	5 3/4	–64
9. American Cruise Lines Operates cruise ships	6.88	8 5/8	3 1/8	–64
10. Mikron Instrument Mfrs. temp.-measurement equip.	2.50	5	1 15/16	–61

SOURCE: IDD Information Services Inc., New York City

Winners and losers. Overall, retailers and wholesalers raised more money from IPOs than did technology companies, but the latter often did better in the aftermarket, as shown in the tables above. (For purposes of this comparison, we have included only firm-commitment issues that came out prior to October 1, 1986, with offering prices, adjusted for splits, of $2 or more.)

BIRDS OF A FEATHER

For some investors, it was the Year of the Chicken.

☆ Every IPO market has its oddball offering that takes wing, touching off a flurry of similar deals. In 1984, it was the Crazy Eddie style of consumer-electronics retailer. ("His prices are *insane*!!!") In 1985, it was membership discount stores. Last year, it was chickens.

The coop window opened in February, when one of the nation's larger poultry companies, Hudson Foods Inc., in Rogers, Ark., managed to raise $23 million at a juicy multiple of 27 times per share earnings. The reason, it appeared, was the company's story, recounted in the prospectus, that per capita consumption of poultry is rising 15 times faster than that of red meat, and that Hudson Foods "emphasizes value-added products" with fatter profit margins, if not fatter content.

The offering's success caught the eyes of at least a couple of other chicken companies—Corbett Enterprises Inc., in Hartford, and Golden Poultry Co., in Atlanta—both of which came along in August clucking more or less the same tune. Corbett subsequently withdrew its offering, opting to be acquired instead. But Golden Poultry brought out its IPO on schedule in September, raising $13.2 million without a squawk (albeit at a less snazzy multiple of 15 times earnings per share).

That was chicken feed, however, next to the November offering of Pilgrim's Pride Corp., in Pittsburg, Tex., the sixth largest chicken producer in the United States. The company, it seems, needed lots of money so that one part of the founding Pilgrim family could buy out another. Strange as this rationale was, investors ate it up, and Pilgrim successfully completed the largest chicken IPO of the year, selling $46 million of stock.

Moral: When the window opens, it's time to spread your wings and fly.

HOW TO MAKE A DEAL SING

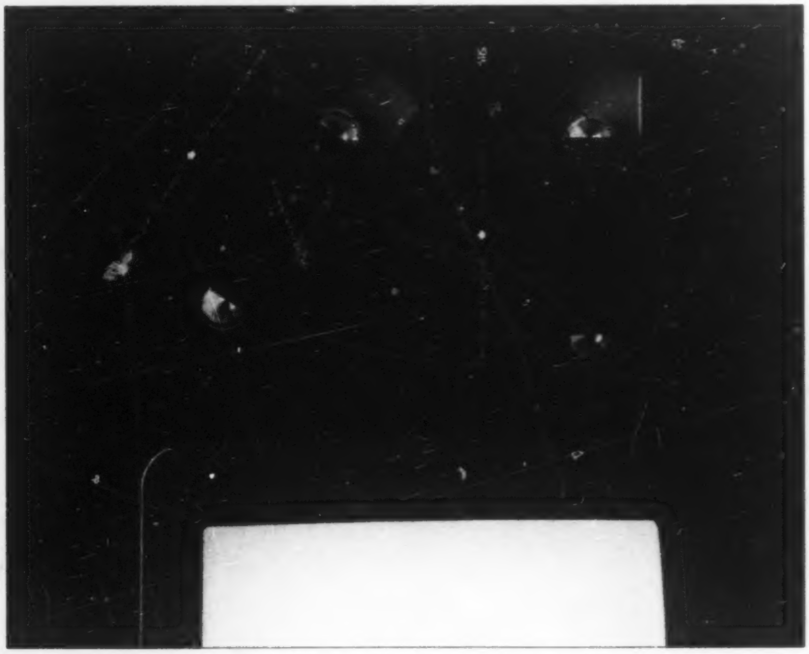
Prospectuses go new wave.

☆ There may be a better cure for insomnia than an old-fashioned prospectus, but we haven't found it. There aren't many pictures to look at, after all, and—even if there were—you'd still have to plow through prose written (or rewritten) by lawyers. Need we say more? But before you throw away your Seconal, you'd better take a look at some of the new prospectuses coming down the pike. Not only will they keep you awake. They just might make you want to dance.

One of the first to strike up the beat was Kurzweil Music Systems Inc., in Waltham, Mass., which felt mere words could not do justice to its sophisticated computer-based musical instruments. It's one thing to read about a keyboard that can imitate everything from baroque to Motown; it's quite another thing to hear it. So Kurzweil produced a high-quality audiocassette tape recording of its products in action, then furnished the half-hour tape (along with the regular prospectus) to interested parties. With little fanfare, the company sold out its offering of $9.4 million toward the end of 1985.

Audio was certainly a step forward, but the future may belong to living color. Already, there are production companies that specialize in videotapes to accompany prospectuses, and they report that business is booming, as more and more underwriters—including the likes of Dean Witter Reynolds Inc. and Morgan Stanley & Co.—send clients into the studio. The idea, says Anne Shahmoon, creative director for Exploration Inc., a New York City production company, is to "provide an upbeat and concise explanation of the company and its product."

Unfortunately, there's a limit to just how "upbeat" you can be. Last fall, the Securities & Exchange Commission agreed to allow the use of videos, but stipulated that they should include no information not contained in the printed prospectus. In other words, no songs by Lionel Richie. What's more, the videos should be shown only to brokers, not the general public. And, oh yes, the script has to be reviewed by lawyers—who will no doubt find some way to put us all back to sleep.



"Upbeat" videotapes to accompany new-wave prospectuses

The future may belong to living color, but the lawyers still review the script.

RERUNS

The Used-Equipment Offering

FOR SALE
1 PREVIOUS OWNER
USED

Who needs sparkle? Toronto-based Officeland Inc. makes its money finding new homes for old typewriters, photocopiers, and computers, which it gets from banks and other companies, often splitting the profit. "The concept is unique," says Franklin Wolf, chairman and president of F. N. Wolf & Co., which managed the company's $2.4-million IPO. "We never thought of it as a glamour stock." Nevertheless, Officeland, which came out at $3.50 last January, has since traded at over $7.

UNDERWRITERS: HOT HANDS

Rank & Underwriter	No. of IPOs Managed	No. of IPOs Whose Aftermarket Price Rose	% Change in Prices of IPOs Managed
1. Whale Securities (New York City)	4	4	112%
2. Laidlaw Adams & Peck (New York City)	3	1	69
3. Piper, Jaffray & Hopwood (Minneapolis)	3	1	34
4. F. N. Wolf (New York City)	3	3	33
5. Hambrecht & Quist (San Francisco)	5	3	32
6. Robertson Colman (San Francisco)	4	4	32
7. D. H. Blair (New York City)	14	6	17
8. Furman Selz Mager Dietz & Birney (New York City)	4	2	17
9. McKinley Square Allsopp (New York City)	4	4	15
10. Lazard Frères (New York City)	4	2	14

UNDERWRITERS: COLD HANDS

Rank & Underwriter	No. of IPOs Managed	No. of IPOs Whose Aftermarket Price Rose	% Change in Prices of IPOs Managed
1. First Affiliated Securities (San Diego)	6	0	-42%
2. Legg Mason Wood Walker (Baltimore)	3	0	-30
3. Boettcher & Co. (Denver)	4	0	-27
4. Prudential-Bache Securities (New York City)	9	1	-24
5. Blackstock & Co. (Jacksonville)	3	1	-24
6. Montgomery Securities (San Francisco)	4	2	-21
7. Blunt Ellis & Loewi (Chicago)	3	1	-18
8. Ladenburg, Thalmann (New York City)	13	3	-17
9. Steinberg & Lyman (New York City)	3	0	-14
10. Drexel Burnham Lambert (New York City)	41	7	-13

SOURCE: *GOING PUBLIC: The IPO Reporter*, New York City

Pricing it right. There's an element of chance in any successful initial public offering, but investment bankers do control certain key elements of the deal, notably pricing. So one way to tell how underwriters did is to look at the aftermarket performance of the issues they brought public, as we have done in the tables above (limiting the comparison to companies that managed three or more IPOs during 1986). The rankings are based on percentage change in the prices of new issues managed by the concern, calculated by adding up the offering prices of each company's IPOs, then comparing that total to the sum of their closing prices on December 31, 1986. And what does it all mean? Well, if you had invested in a deal managed by one of the underwriters on the right, chances are you'd be out some money. Then again, if one of those firms had handled your offering, you might well be hearing from angry shareholders right now.

HERE THEY COME AGAIN

The companies that went private are going public.

☆ Remember the early days of the leveraged-buyout craze? Remember all those managers who just couldn't say enough about how *great* it was to operate as a private company? Well, guess what. They changed their minds.

The year 1986 witnessed a raft of public offerings from companies that had previously been acquired in leveraged buyouts. In many cases, moreover, the companies were completing a round-trip—that is, returning to the public equity markets after having earlier gone private via an LBO. If this seems like a long and complicated process, understand that the commuting time is only about two years, provided you know the shortcuts. And that includes all those Manhattan traffic jams.

Round-trip or one-way, the ride was certainly worth the effort. Consider Pannill Knitting Co., in Martinsville, Va., a leading maker of fleeced sweatclothes. The company had been thriving as a family-owned business until April 1984, when a group of managers and investors, including William G. Pannill, decided to acquire it in an LBO. The cost to the new owners was $253.5 million. Two years later, they sold off 40% of the stock in an IPO, giving them a quick gain of $16.8 million.

Similar logic applied to the round-trippers, including Harman International Industries, an audio-equipment company; Anchor Glass Container, a manufacturer of glass containers; and Western Publishing Group, the publisher of *The Little Engine That Could* and other Golden Books. But the real engine that could is Wesray Inc., an investment company founded by former U.S. Treasury secretary William E. Simon. Of the dozen such deals that have been completed to date, Wesray principals have been involved in seven of them, including Anchor Glass.

William E. Simon
Round-trip captain

With a universe of more than 500 LBOs, this is one fad that's not likely to peak soon. And who knows? It may be only a matter of time before a company makes its second round-trip. Perhaps the owners will collect frequent-flyer coupons along the way.

CHIPS AHOY

The Semiconductor Offerings

SILICON CHIPS
SILICON
CYPRESS

For about two years there, you would have had more luck going public as a maker of chocolate chips than as a maker of silicon chips. But last May, two semiconductor companies—Linear Technology Corp. and Cypress Semiconductor Corp.—did successful IPOs within a day of each other, proving that investors don't hold grudges forever. It helped, of course, that both companies could show at least a little black ink.

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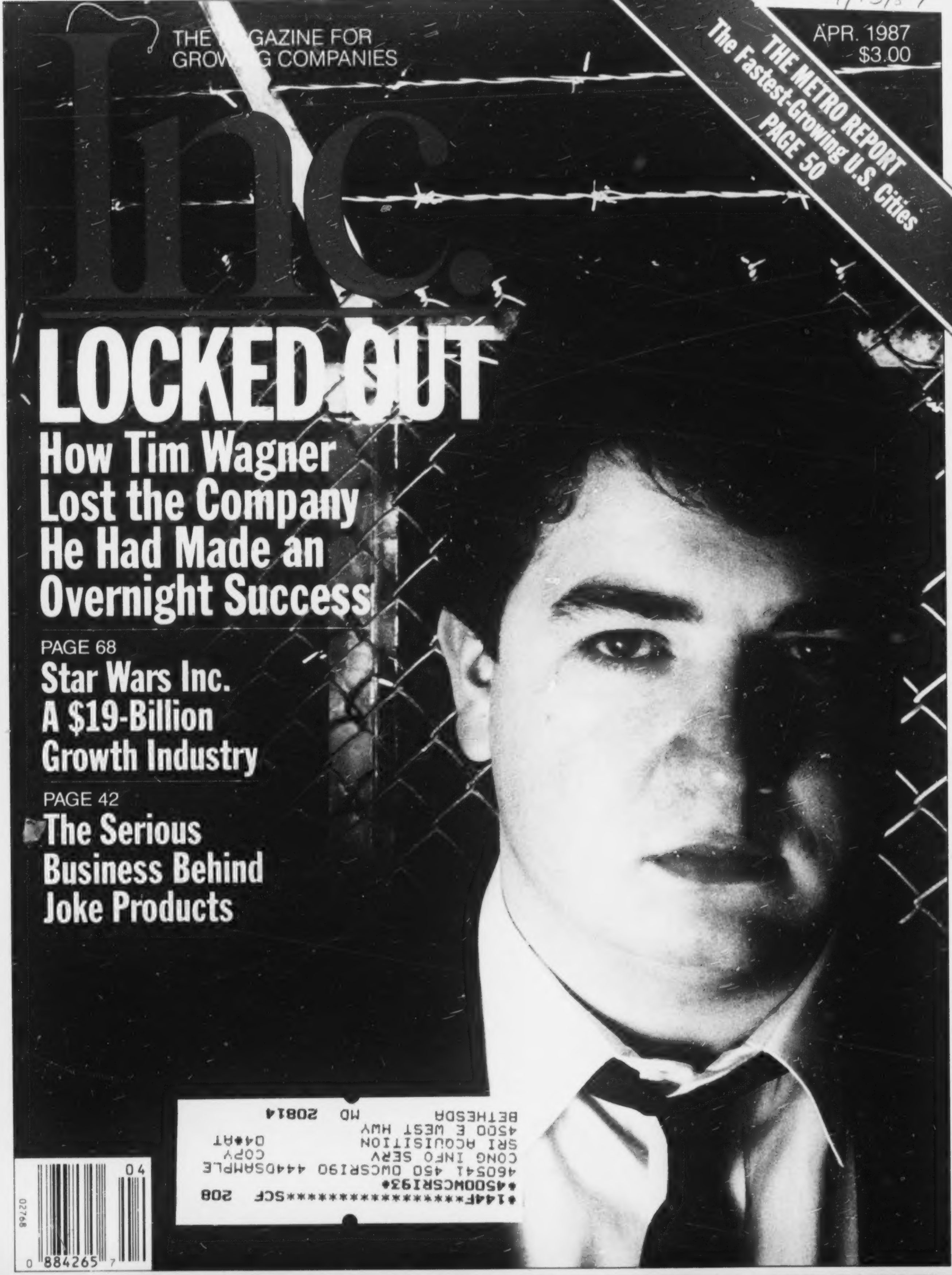
THE METRO REPORT
The Fastest-Growing U.S. Cities
PAGE 50



LOCKED OUT

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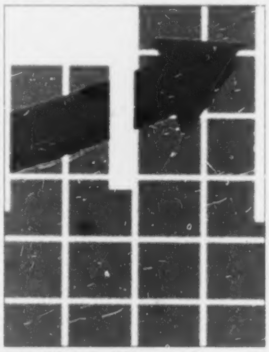

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COVER PHOTOGRAPH
by
Louis Bencze

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METRO REPORT

HOT SPOTS

INC.'s list of the 50 fastest-growing U.S. cities

The United States in 1987 is in the midst of a dramatic deconcentration in the structure of its economy. Much has already been written about the shrinking of the nation's big corporations and the rising importance of small and midsize companies in generating jobs and economic growth. And what is true of the economy is now reflected in the political economy as well—in the declining importance of the largest cities in favor of regional metropolitan areas and small cities in the newly prosperous South and West.

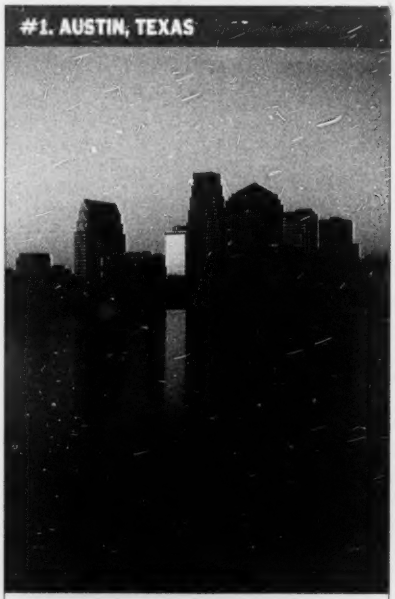
To plot more precisely the direction of this trend and better calculate the slope of its curve, INC. ranked every metropolitan area in the United States according to three growth criteria: significant new start-up companies as a percentage of the business census; percentage of start-ups experiencing high growth; and overall growth in employment. The lists of the top 50 cities—along with the 20 cities in the cellar—appear on the following pages.

What conclusions can reasonably be drawn from these rankings?

Even a cursory look at the cities that are hot—and those that are not—confirms that the historic shift from Rust Belt to Sun Belt has not yet run its course. The cities at the bottom of our list comprise something of an atlas of industrial America once-proud capitals of coal and ore, auto and steel. By contrast, many of the cities at the top of the list were mere economic backwaters a generation ago peddling cheap labor, cheap land, and cheap government. As a result of their success in attracting big companies and growing their own small ones, these same cities today sell themselves on the basis of beautiful parks, big airports, and well-endowed universities.

The obvious lesson in all this is that it is easier for a city to come from nowhere than to reverse a steep decline. Because smaller companies cluster in the service and retail sectors, it is difficult to start and grow them when corporate customers in town are closing down operations and thousands of potential retail customers are losing their jobs. "For older cities with heavy manufacturing bases, it's going to be a much harder transition to a more entrepreneurial economy," explains John D. Kasarda, an urban-studies expert at the University of North Carolina at Chapel Hill.

#1. AUSTIN, TEXAS



JOB GROWTH #1
START-UPS #1
HIGH-GROWTH START-UPS #2

But it also is clear from our rankings that cities dominated by a single industry or company—even one that is robust—are not conducive to entrepreneurship and small-business growth. In these places, the big companies tend to crowd out the smaller ones for capital, employees, land, and attention. "Sometimes cities stagnate because the big companies don't move out," explains Jane Jacobs, a noted writer on cities. "They create a company-town atmosphere. They become too self-sufficient. . . . If Eastman Kodak, for instance, had moved out of Rochester, N.Y., that city could have become one of the great science cities of the world."

In addition to having a diverse and healthy economic base, the hot cities share two other characteristics. One is a significant government presence: among cities at the top of our list, it is common to have at least a quarter of their working population employed in the public sector. The other is quality. As David Birch points out on page 53, the thriving cities are the ones that have taken pains to improve the quality of their workers, their lifestyles, and their public institutions.

There is no magic formula for urban economic growth, no single model for the

PHOTO BY REAGAN BRADSHAW

METRO RANKING/THE TOP 50

Rank/Area	Growth In Jobs	Business Birthrate	% of Fast-Growing Companies	Total Score
1. Austin, TX	44.3 %	7.3 %	4.7 %	99.22
2. Orlando, FL	40.5	4.2	3.6	73.37
3. Phoenix, AZ	32.3	4.9	3.6	72.72
4. Dallas-Fort Worth, TX	22.4	5.2	4.0	72.23
5. Tucson, AZ	27.3	3.8	4.2	69.31
6. San Antonio, TX	19.9	4.5	4.2	69.02
7. Raleigh-Durham, NC	34.7	3.7	3.6	67.96
8. Manchester-Nashua, NH	24.6	2.7	4.8	67.11
9. Atlanta, GA	30.0	3.9	3.6	66.54
10. Huntsville, AL	35.3	3.7	3.1	64.40
11. Washington, DC	26.5	3.5	3.6	62.82
12. Albuquerque, NM	26.9	2.9	3.8	61.55
13. San Diego, CA	24.9	3.7	3.3	60.67
14. Charleston, SC	20.5	3.3	3.8	60.27
15. Nashville, TN	21.3	3.2	3.8	60.19
16. Jacksonville, FL	25.9	2.9	3.6	59.51
17. Melbourne-Titusville, FL	33.0	2.6	3.1	57.76
18. Tallahassee, FL	23.7	2.9	3.4	56.83
19. El Paso, TX	3.1	5.1	3.3	56.57
20. Portsmouth-Dover, NH	22.4	2.3	3.6	54.77
21. Norfolk-Portsmouth, VA	23.4	3.1	3.0	54.61
22. Fort Myers, FL	30.6	3.2	2.4	54.14
23. Tampa-St. Petersburg, FL	27.7	3.4	2.4	53.67
24. South Bend, IN	13.4	3.1	3.4	52.61
25. Boston, MA	12.7	2.3	3.9	52.13
26. Memphis, TN	15.6	2.5	3.5	51.50
27. Colorado Springs, CO	21.3	3.3	2.6	51.45
28. Sarasota, FL	29.2	2.8	2.4	51.43
29. Denver, CO	9.7	3.7	3.1	51.41
30. Augusta, GA	22.1	2.0	3.3	50.77
31. Pensacola, FL	17.9	3.2	2.6	49.26
32. Wilmington, DE	16.6	2.1	3.4	49.26
33. Sacramento, CA	25.8	2.7	2.4	49.23
34. Fort Wayne, IN	10.0	2.4	3.6	48.96
35. San Francisco, CA	12.0	2.6	3.3	48.63
36. Salt Lake City, UT	14.2	2.8	3.0	48.43
37. Los Angeles, CA	12.1	3.0	3.0	48.38
38. Columbia, SC	21.1	2.9	2.4	47.84
39. Savannah, GA	10.9	2.5	3.3	47.61
40. Columbus, OH	15.2	2.6	2.9	47.19
41. Houston, TX	-8.7	4.4	3.3	47.07
42. Santa Barbara, CA	17.6	2.1	3.0	46.72
43. Baltimore, MD	12.6	2.5	3.0	46.12
44. Kansas City, MO	11.6	2.7	2.9	45.84
45. Baton Rouge, LA	-0.2	3.3	3.2	45.15
46. Bridgeport-Stamford, CT	9.0	2.2	3.3	45.12
47. Las Vegas, NV	11.3	3.5	2.3	45.05
48. Madison, WI	12.2	2.7	2.7	44.62
49. Minneapolis-St. Paul, MN	11.8	2.4	2.9	44.49
50. Detroit, MI	19.8	2.2	2.5	44.46

METRO RANKING/THE BOTTOM 20

Rank/Area	Growth In Jobs	Business Birthrate	% of Fast-Growing Companies	Total Score
135. Allentown-Bethlehem, PA	0.2 %	1.6 %	2.1 %	28.45
136. Flint, MI	4.7	1.9	1.6	28.38
137. Eugene, OR	6.4	1.7	1.6	28.26
138. Utica-Rome, NY	2.5	1.1	2.2	27.87
139. Youngstown, OH	6.2	2.1	2.1	27.69
140. Scranton, PA	5.1	1.4	1.8	27.62
141. Pittsburgh, PA	-6.7	1.9	2.2	27.19
142. Saginaw-Bay City, MI	-2.5	1.6	2.1	27.05
143. Erie, PA	-0.4	1.7	1.8	26.32
144. Reading, PA	5.1	1.3	1.5	24.81
145. Cedar Rapids, IA	2.1	1.4	1.6	24.56
146. Johnstown-Altoona, PA	-1.3	1.5	1.7	24.08
147. Beaumont, TX	-19.3	2.4	2.3	24.05
148. Johnson City, TN	6.5	1.7	1.0	23.68
149. Springfield-Decatur, IL	7.1	1.4	1.1	23.23
150. Charleston, WV	-5.8	2.1	1.4	22.47
151. Davenport, IA	-5.9	1.7	1.5	21.22
152. Huntington, WV	-8.4	1.8	1.4	19.70
153. Peoria, IL	-12.1	1.6	1.0	13.75
154. Duluth, MN	-13.6	1.6	1.1	13.74

HOW THE CITIES WERE RANKED Like our annual states report, this ranking of metropolitan areas is based on three factors: job generation, rate of significant new business start-ups, and the percent of young companies enjoying high growth rates. For each factor, each metropolitan area was assigned a score from 1 to 33.33 reflecting its relative standing among all cities in the United States: the overall rank of a city was based on the sum of the three scores, with 100 as the highest possible score.

Metropolitan areas were defined as counties or groups of counties closely related by commuting patterns. In general, a densely settled suburban county was grouped with an urban county if 15% of its residents reported working in the city. By this method, 89% of the metropolitan areas corresponded to the metropolitan statistical areas used by the federal government.

Job data were supplied by the U.S. Bureau of Labor Statistics for private and civilian public-sector employment gains or losses between November 1981 and November 1985. Data on companies were compiled by Cognetics Inc., in Cambridge, Mass.

The rate of significant new business births was derived by dividing the total number of business establishments in an area by the number of companies founded since 1982 that had 10 or more employees by January 1986. The number of high-growth companies was figured as a percentage of all companies founded since 1978. For each company, an index was calculated by multiplying its absolute growth in employment between 1982 and 1986 by its percentage of employment growth during the same period. Figuring growth in this way eliminated any bias in favor of large companies (which might have high absolute numbers) or small ones (which might have high percentages of change). Companies with an index of 20 or higher were classified as high growth.

INC.'s metro rankings were prepared under the direction of special projects editor Sara Baer-Sinnott. For information on reprints, call Elizabeth Longsworth at (800) 372-0018.

entrepreneurial city. But from our list of top cities we have identified six broad groupings:

☐ **Bureaucrats and Brains.** The rhyming duo of Austin (#1) and Boston (#25) is the premier example of what happens when government headquarters and world-class research universities are located in the same place. In the Massachusetts version, the universities are private; in Texas, it is public. In each case, the university payroll is substantial and the high-tech spin-off is the envy of the nation. And should high tech turn soft, as it has recently in Austin, the capital cities in this category rely on government to cushion the blow—not through subsidies, but through steady, high-paying jobs that support a thriving retail sector. Raleigh-Durham, N.C. (#7), with its Research Triangle Park, fits in this category, followed less dramatically by Ohio's Columbus (#40) and Wisconsin's Madison (#48). Unlike those cities, Colorado Springs, Col. (#27), is not a state capital, but it makes up for state spending with the U.S. Air Force Academy, the U.S. Space Command, the Air Force Space Command, and the North American Aerospace Defense Command.

☐ **Megalopolises.** Some of the cities at the top of our list will claim a unique business climate explains their growth, but one has the nagging suspicion that geographical accident is somehow involved. The classic case is the Bridgeport-Stamford section of Connecticut (#46), once the center of corporate flight from Manhattan that has since been clever enough to capitalize on the opportunity. Today, hundreds of businesses and professional firms have sprung up to serve or be near the corporate émigrés, as have restaurants to feed their executives, construction companies to build their plush offices, and commuter airlines to shuttle in their customers.

In somewhat the same way, one can understand the phenomenal growth of Baltimore (#43), Wilmington, Del. (#32), and Norfolk-Portsmouth, Va. (#21), on the periphery of debt-fueled Washington, D.C. (#11); or Manchester-Nashua (#8) and Portsmouth-Dover (#20), N.H., which have accepted hungrily the manufacturing spillover of Boston's high-tech boom; or California's San Diego (#13) and Santa Barbara (#42), which are more beautiful places in which to live and start a business than nearby Los Angeles (#37).

☐ **Regional Capitals.** For long-run performance, our money is on these second-tier cities whose long-established roots in all sectors of the economy allow steady growth even during droughts and floods. These are centers for government, finance, and transportation, homes to major universities, and regional headquarters to major national corporations. Manufacturing is high paying and increasingly high tech. During the early 1980s, construction and real estate were very hot. Now, retail trade is thriving and disproportionately high end.

In this category, such cities as Atlanta (#9), Denver (#29), Kansas City, Mo. (#44), and Minneapolis-St. Paul (#49) have long histories of regional dominance. While San Francisco (#35), by several measures, has lost ground to Los Angeles, it has made up for its losses with a thriving new artisan economy that is profiled on page 56. Salt Lake City (#36) has the advantage of being a religious as well as an economic and political capital, and the tithing customs of the Mormon church have helped to keep much of Salt Lake City's wealth invested right at home. If any city has created a regional capital where neither history nor geography would have predicted it, it is Dallas-Fort Worth (#4), where defense contracting is an art, the airport reigns supreme, and huge trade marts have given new meaning to wholesaling.

Cities dominated by a single industry or company—even a thriving one—are not conducive to entrepreneurship and small-business growth.

☐ **Frontier Towns.** Usually construction, real estate, and retail sales follow in the wake of economic growth, accelerating its pace, but in the dusty cities of the old Southwest it seems as if they have been leading the charge. The one thing you notice today about Phoenix (#3), Tucson (#5), San Antonio (#6), and Albuquerque (#12) is the phenomenal pace of each city's expansion into the deserts and up into the mountains. Yet if they all are entrepreneurial boomtowns today, it is probably thanks to technology giants such as Datapoint and Fairchild Industries (San Antonio), Digital Equipment and Intel (Albuquerque), Unisys, Honeywell, and Motorola (Phoenix), all of which built production facilities in the Southwest many years ago. Good climate and cheap land were the drawing cards back then, for corporations and retirees alike. But don't forget that these cities also owe much of their growth to the government: Phoenix, its state offices and its federally subsidized water system; Tucson, its state university; San Antonio, its nearby military bases; and Albuquerque, its air-force base and the Sandia National Laboratories.

☐ **One-Industry Towns.** Say Huntsville, Ala. (#10) or Melbourne-Titusville, Fla. (#17), and you mean the space program. Say Houston (#41) and Baton Rouge (#45), and you mean oil. These cities rise and fall with the fate of a single industry, and until 1985, at least, they were up. Also in this category is Detroit, just making the cut at #50 in our rankings, thanks in part to the billions of dollars invested by struggling car manufacturers in new designs and new technology that have trickled down to the smaller companies. Perhaps most impressive in this category is Memphis (#26), the city that has made its money transporting and trading the goods that other cities produce, be it in the era of the riverboat, the train, or the Federal Express Corp. jet.

☐ **Retreats.** Although they have become much more than simply retirement communities and vacation spots, Las Vegas (#47) and the Florida cities of Fort Myers (#22), Sarasota (#28), and Pensacola (#31) might never have spawned so many growing new companies but for the buying power of tourists and old ladies. Even before retirees arrived by car and plane in Jacksonville, Fla. (#16), cargo arrived by ship, and today the deep-water port, along with the insurance industry, continues to drive that city's phenomenal rate of growth. Perhaps the stellar performer in Florida, however, is #2 Orlando, which in just 15 years has gone from being home to Mickey, Minnie, and Donald to being a home, as well, to such high-tech performers as AT&T Technology Systems, Harris, Litton Laser Systems, United Technologies, and Westinghouse.

In the category of surprises on our list of top metropolitan areas, we count the Old South cities of Savannah (#39) and Augusta (#30), Ga., and Columbia (#38) and Charleston (#14), S.C., where tourists and the Pentagon are big spenders. Among the declining industrial cities that have made entrepreneurial comebacks, two are in Indiana: South Bend (#24), which once relied on Studebaker Corp. for most of its jobs but now looks to the University of Notre Dame for much of its enterprise; and Fort Wayne (#34), which declined with International Harvester but went on to revival with Magnavox, General Electric, and General Motors.

Conspicuously absent from the list of hot cites are New York (#81) and Chicago (#106), still generators of jobs but not young companies. In that respect, they must tip their hats to the more vibrant Los Angeles (#37), which has shown that entrepreneurship can thrive even in the largest cities. *—Steven Pearlstein*

Research assistance was provided by Sarah Clifford.

THE INC. 100

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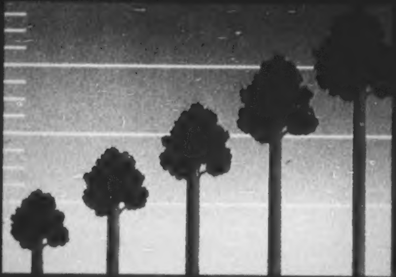
1987's FASTEST-GROWING SMALL PUBLIC COMPANIES



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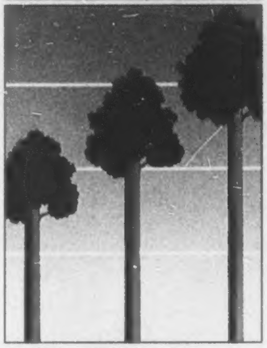
INC. COVER STORY



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COVER ILLUSTRATION
by
Min Jae Hong

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1987

THE INC. 100

AMERICA'S FASTEST-GROWING SMALL PUBLIC COMPANIES

WE'RE AWAITING CONFIRMATION FROM THE observatory at Mount Palomar that all the planets and moons did indeed orbit around Wall Street last year. Certainly that's where the economic action seemed to be. A wave of mergers and acquisitions. More leveraged buyouts, financed with ever-junkier bonds. Massive selloffs of money-losing divisions. Multibillion-dollar buybacks of sagging company shares. And a spreading insider-trading scandal.

But the real story of economic performance—the tough work of producing goods and services, of building companies and creating jobs—occurred far from lower Manhattan. The enterprises on this year's INC. 100 list of the fastest-growing small public companies were expanding not merely by reshuffling their assets, and in that fact lies the continuing strength of the American economy. If hundreds of older factories closed down last year, for example, how did the United States generate millions of new jobs? Look at Fuddruckers (#85), a restaurant operator and franchisor, whose payroll jumped from 92 in 1982 to 3,050 in 1986. Or Apollo Computer (#62), which added more than 3,000 employees over the same period. The average INC. 100 company payroll zoomed from 46 employees in 1982 to 786 in 1986. And at no loss of productivity, either—sales per employee nearly doubled during that period.

The companies on this year's list illustrate a simple point: giants often flounder when markets change because they fail to see the new opportunities. Is Sears, Roebuck & Co. stagnating? The off-price retail market served by Ross Stores (#58) and Consolidated Stores (#80) isn't; neither is the home shopping business pioneered by Home Shopping Network (#10). Is Time Inc. having trouble? There's little trouble at the 13 fast-growing communications companies on this year's list, some of which compete in the hot satellite broadcasting market. Is AT&T floundering in the new era of deregulation? Seven young companies on the list are profiting from the same deregulation by providing a wide array of new telecommunications services.

The INC. 100 reflects broad economic trends. For the first time in the nine years that we have published the list, for example, fewer than half the companies on it manufacture a product—only 45, down from 55 last year. The difference, of course, is made up by a surge in the service sector, up to 37 companies from 26 last year. It's no surprise that representation from the energy and mining sector has caved in, too. Only 3 companies—all independent power producers whose market was assured by the Public Utility Regulatory Policies Act of 1978—grew fast enough to make the list, as compared with 6 last year. Back in 1983, the last glorious hours in the oil industry's heyday, 17 companies were on the list.

Some things don't change. As in the past, computer and software companies (30) and health-care providers (16) head the INC. 100. California is once again the state leader, claiming 28 of the 100 fastest-growing small public companies; in fact, California, New York, and Massachusetts together are home to nearly half of the companies on the list.

You don't have to be a computer company from Silicon Valley to make the list, though. Suppose you sell mobile homes in Winston-Salem, N.C., or make pizza toppings in Hutchinson, Kans. How do you grow fast enough to grab a spot on the 100 in a business that seemingly anyone could enter, in a place that is Anywhere Down the Street, U.S.A.? Senior writer Tom Richman explores the fundamental wellsprings of growth in "Ordinary Business" (page 73).

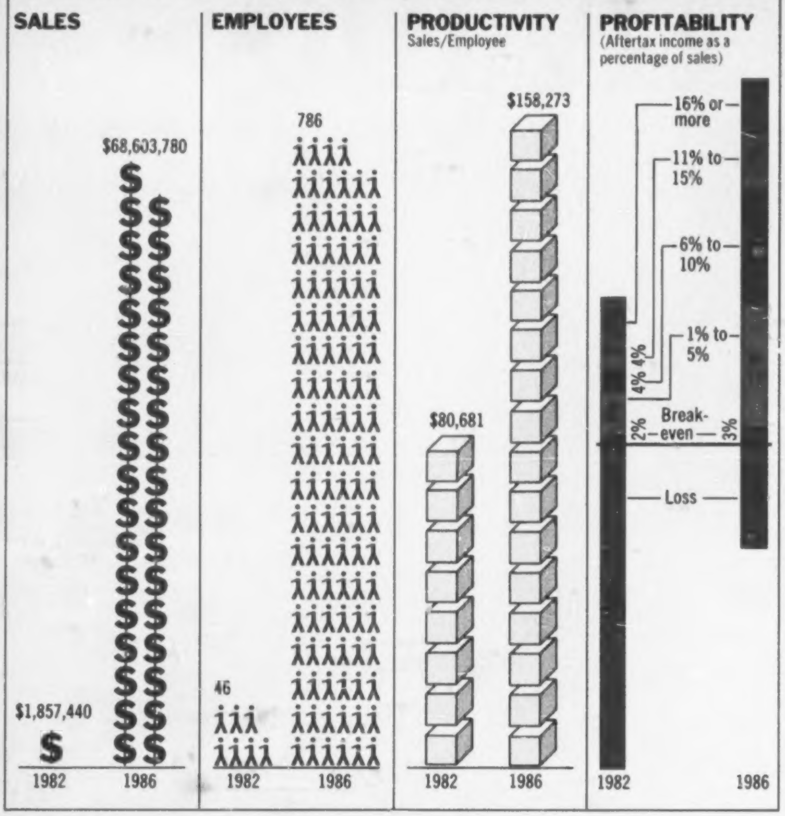
Growth had a special meaning for investors in the INC. 100 stocks. As senior writer Robert A. Mamis explores in "From Riches to Rags . . . and Back" (page 66), the portfolio of INC. 100 stocks rose 36% in a year, outperforming the major market indices. But investors didn't reward hot sales growth alone; if solid earnings didn't accompany those sales dollars, investors were apt to dump the stock.

Strategy and personality have a lot to do with growth, of course. In "The INC. 100 Portfolio" (page 58), associate editor Joshua Hyatt introduces us to the faces behind the company names. What company brought Oprah Winfrey national, and how did the popular TV talk-show hostess return the favor by helping to keep it on the INC. 100 for a second year? How did one founder's strategy bring his company $100 million in losses last year on $178 million in sales? And what chief executive officer's plane was stolen for a drug run?

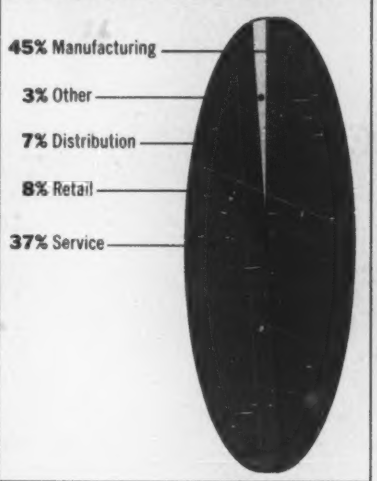
It's all a million miles from the deals and scandals on Wall Street. But it's also a lot more fun. *—The Editors*

THE INC. 100 AT A GLANCE

HISTORY OF GROWTH: THE AVERAGE INC. 100 COMPANY



INC. 100 BY SECTOR



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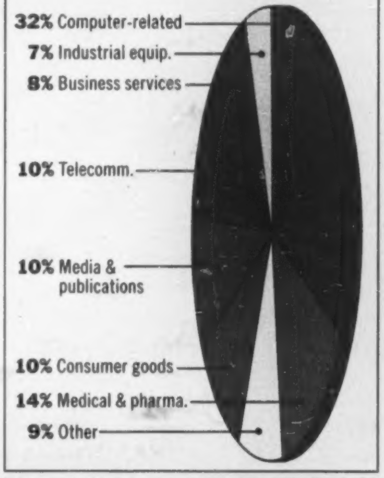
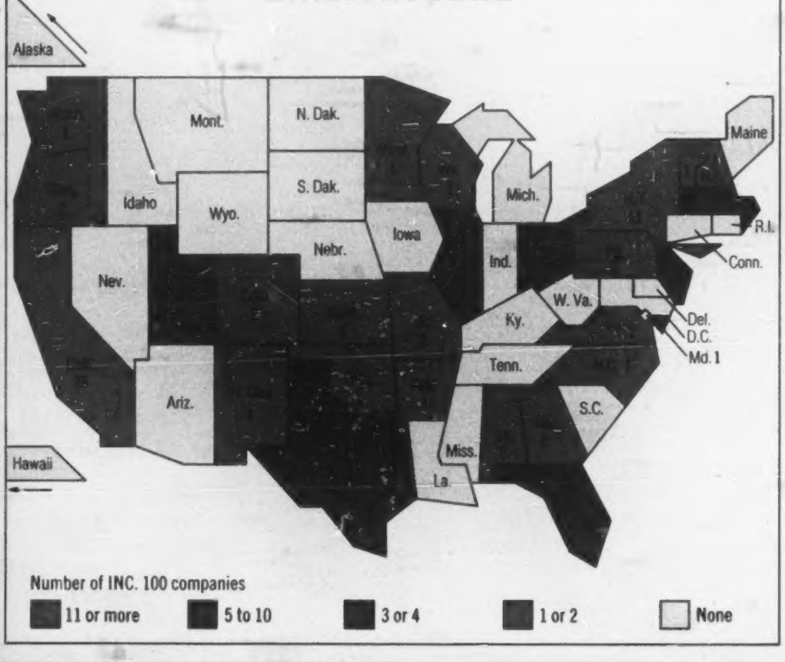


INC. 100 BY STATE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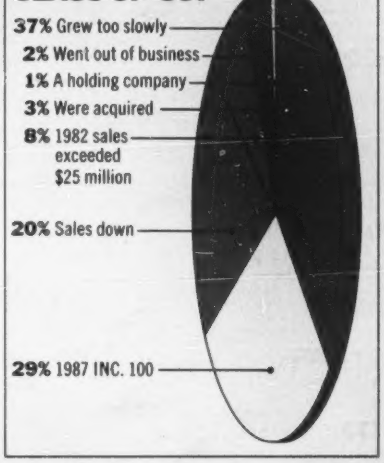
W. Va.
Ky.
Del.
D.C.
Md. 1
Tenn.
Ariz.
S.C.
Miss.
La.
Hawaii
Number of INC. 100 companies
11 or more
5 to 10
3 or 4
1 or 2
None

WHAT HAPPENED TO THE CLASS OF '86?



NIGEL HOLMES

THE 100

Company (1986 Rank) Business Description	Sales Growth (1982–86) Percent Increase	Sales Growth (1982–86) Compound Annual Rate	Sales ($000) 1986	Sales ($000) 1982	Net Income ($000) 1986	Net Income ($000) 1982	Shareholder Equity ($000) 1986	No. of Employees 1986	No. of Employees 1982	Year Founded
1. **CATALYST ENERGY DEVELOPMENT** New York, NY Independent power producer	212,338%	579%	$227,309	$107	$6,276	$12	$158,400	500	3	1982
2. **LOTUS DEVELOPMENT** Cambridge, MA Publ. software	162,466	535	282,864	174	48,300	(1,145)	114,500	1,400	16	1982
3. **WYSE TECHNOLOGY** San Jose, CA Mfrs. video display terminals	152,556	525	166,395	109	12,592	(435)	72,078	725	40	1981
4. **AMERICAN NETWORK** Portland, OR Long-distance telephone svc.	56,535	388	94,014^{C}	166	5,200^{C}	(536)	20,000^{C}	695	5	1982
5. **NATIONAL HEALTHCARE** Dothan, AL Rural health-care svcs.	56,088	387	115,748	206	3,122	(22)	55,272	3,500	20	1981
6. **AST RESEARCH** Irvine, CA Supplies IBM-enhancement prods.	43,520	357	172,299	395	27,177	(37)	86,586	985	34	1980
7. **BONNEVILLE PACIFIC** Salt Lake City, UT Dvlps. power facilities	23,905	294	32,167	134	2,460	(66)	3,657	30	9	1980
8. **PRICE COMMUNICATIONS** New York, NY Operates radio & TV stations	18,782	271	96,675	512	(24,594)	(242)	(13,473)	850	34	1979
9. **LAM RESEARCH** Fremont, CA Mfrs. silicon-chip etching machines	18,031	267	34,449	190	1,998	(1,681)	42,494	323	40	1980
10. **HOME SHOPPING NETWORK** Clearwater, FL Televised specialty retailer	17,735	265	160,159	898	17,049	(220)	47,476	4,200	150	1982
11. **AMERICAN CITY BUSINESS JOURNALS** Kansas City, MO Publ. regional bus. journals	17,663	265	27,000^{C}	152	(7,300)^{C}	(192)	11,300^{9}	1,200	25	1982
12. **NORTHEASTERN MORTGAGE** Boston, MA Mortgage banking	16,666	260	21,460	128	3,500	33	14,805	310	3	1982
13. **ADVANCED TELECOMMUNICATIONS** Atlanta, GA Long-distance telephone svc.	16,250	258	45,616	279	3,485	(30)	14,392	450	10	1982
14. **CADE INDUSTRIES** (18) Marinette, WI Mfrs. aerospace component parts	13,302	240	58,300^{C}	435	3,690	(80)	11,716	1,200	50	1980
15. **STERLING SOFTWARE** (30) Dallas, TX Software svcs.	10,365	220	233,793	2,234	3,780	630	74,525	2,500	150	1981
16. **IOMEGA** (5) Roy, UT Mfrs. & mkts. disk drives	10,054	217	125,906^{C}	1,240	6,373^{C}	(6,063)	57,392^{C}	1,200	111	1980
17. **MENTOR GRAPHICS** Beaverton, OR Mfrs. & mkts. computer-aided eng. prods.	9,955	217	173,545	1,726	11,000	(1,934)	155,231	900	100	1981
18. **WESTWORLD COMMUNITY HEALTHCARE** Lake Forest, CA Rural health-care svcs.	9,805	215	178,000^{C}	1,797	(100,000)^{C}	6	(71,000)^{C}	3,500	1	1982
19. **SAHLEN & ASSOCIATES** Atlanta, GA Private investigation svcs.	7,899	199	8,079	101	651	(112)	2,862	250	25	1981
20. **SHANLEY OIL** (11) Dallas, TX Oil & gas dvlpmt.	7,791	198	26,750	339	(1,422)^{9}	(1,873)	11,966^{9}	500	8	1980
21. **ENTRE COMPUTER CENTERS** Vienna, VA Bus. computer franchise	7,651	197	66,893	863	(8,007)	(739)	21,018	432	38	1981
22. **EXPEDITORS INT'L** (7) Seattle, WA Int'l air-freight forwarding	7,454	195	108,773	1,440	4,061	343	19,643	575	45	1979
23. **ENVIRODYNE** Chicago, IL Mfrs. disposable cutlery	6,906	189	316,620	4,519	17,347	489	80,000	4,300	75	1970
24. **SYMBOLICS** Cambridge, MA Mfrs. & mkts. computer systs.	6,242	182	114,212	1,801	10,729	(3,904)	87,256	905	107	1980
25. **KINGS ROAD ENTERTAINMENT** Los Angeles, CA Produces motion pictures	5,387	172	16,736	305	(4,807)	(22)	21,579	26	4	1982

C: company estimate; 9: nine-month figure

CHARTS TYPESET BY B.P.E. GRAPHICS

	Company (1986 Rank) Business Description	Sales Growth (1982–86)		Sales ($000)		Net Income ($000)		Shareholder Equity ($000)	No. of Employees		Year Founded
		Percent Increase	Compound Annual Rate	1986	1982	1986	1982	1986	1986	1982	
26.	**BALLARD MEDICAL PRODUCTS** Midvale, UT Mfrs. disposable medical prods.	4,739%	164%	$5,516	$114	$123	($426)	$3,690	153	20	1978
27.	**INSITUFORM SOUTHEAST** Jacksonville, FL Constr. & repair of sewers & pipelines	4,673	163	7,828	164	790	(234)	7,775	79	10	1981
28.	**COMPUTER MEMORIES** Chatsworth, CA Mfrs. & mkts. disk drives	4,653	163	116,201	2,445	(18,050)	(369)	29,991	99	42	1979
29.	**WALKER TELECOMMUNICATIONS** (17) Hauppauge, NY Distr. electronic key telephone systs.	4,386	159	37,500[C]	836	400[C]	152	17,100[C]	100	3	1978
30.	**SYMBION** (43) Salt Lake City, UT Mfrs. artificial organs	4,305	158	6,696	152	(1,465)	(489)	14,438	62	9	1976
31.	**BIO-LOGIC SYSTEMS** Northbrook, IL Mfrs. computer-based electro-diagnostic systs.	4,073	154	5,008	120	486	(174)	4,060	58	6	1980
32.	**NEWMAN COMMUNICATIONS** Albuquerque, NM Produces & distr. audiocassettes	3,925	152	7,930	197	365	(47)	2,155	60	4	1981
33.	**CALIFORNIA BIOTECHNOLOGY** Mountain View, CA Dvlps. health-care prods.	3,885	151	16,818	422	(18,968)	(250)	88,647	156	12	1982
34.	**LSI LOGIC** Milpitas, CA Designs & mfrs. integrated circuits	3,807	150	194,335	4,974	3,855	(3,740)	250,989	1,800	114	1981
35.	**KING WORLD PRODUCTIONS** (64) Summit, NJ Distr. & syndicates TV programs	3,662	148	145,718	3,873	19,846	323	43,830	93	15	1964
36.	**MBI BUSINESS CENTERS** (70) Rockville, MD Sells microcomputer systs. & prods.	3,633	147	117,932	3,159	2,892	(40)	33,644	550	75	1974
37.	**MINISCRIBE** Longmont, CO Produces & mkts. computer storage devices	3,566	146	184,861	5,043	22,711	(3,247)	66,314	2,700	50	1980
38.	**3COM** (13) Santa Clara, CA Mfrs. local area network systs.	3,435	144	63,992	1,810	6,681	(690)	32,710	372	32	1979
39.	**DOSKOCIL** Hutchinson, KS Procs. precooked meat & sausages	3,350	142	223,918	6,491	4,656	1,124	65,856	900	100	1961
40.	**CITIPOSTAL** New York, NY Courier	3,252	141	6,737	201	703	(28)	2,375	75	12	1969
41.	**ASHTON-TATE** (4) Torrance, CA Designs & mfrs. software prods.	3,230	140	121,571	3,651	16,567	(175)	53,528	1,100	160	1980
42.	**INFORMIX** Menlo Park, CA Designs & mkts. database mgmt. software prods.	3,208	140	21,108	638	2,463	141	15,679	214	19	1980
43.	**PSE** Houston, TX Operates waste heat-recovery plants	3,201	140	100,000[C]	3,029	(1,568)[9]	(159)	28,181[9]	200	40	1969
44.	**AMERICAN BUSINESSPHONES** (6) Irvine, CA Distr. & svcs. business phones	3,187	139	23,897	727	557	60	6,165	240	13	1980
45.	**SARATOGA STANDARDBREDS** (32) N. Salem, NY Raises standardbred & harness horses	3,145	139	6,100[C]	188	254[9]	(158)	6,359[C]	68	10	1981
46.	**BRENTWOOD INSTRUMENTS** (40) Torrance, CA Mkts. & sells medical testing equip.	3,017	136	11,127	357	603	2	5,677	75	4	1979
47.	**TEKELEC** Calabasas, CA Mfrs. & mkts. digital telephone test equip.	2,967	135	13,987	456	1,384	(88)	13,865	140	12	1980
48.	**VITRONICS** (44) Newmarket, NH Mfrs. infrared solder reflow systs.	2,935	134	7,162	236	302	(105)	4,128	63	7	1981
49.	**FONAR** (82) Melville, NY Mfrs. medical scanning equip.	2,815	132	36,668	1,258	2,620	(2,113)	139	294	74	1978
50.	**APPLIED BIOSYSTEMS** Foster City, CA Mfrs. & mkts. automated instruments	2,638	129	51,748	1,890	10,367	(979)	81,240	465	34	1981

[C]: company estimate; [9]: nine-month figure

	Company (1986 Rank) Business Description	Sales Growth (1982–86) Percent Increase	Compound Annual Rate	Sales ($000) 1986	1982	Net Income ($000) 1986	1982	Shareholder Equity ($000) 1986	No. of Employees 1986	1982	Year Founded
51.	**TEKNOWLEDGE** Palo Alto, CA Dvlps. & mkts. software prods.	2,553%	127%	$14,563	$549	$669	($412)	$47,494	175	40	1981
52.	**TCBY ENTERPRISES** Little Rock, AR Frozen yogurt franchisor	2,487	126	33,293	1,287	8,031	317	36,697	214	20	1981
53.	**TELSTAR** Los Angeles, CA Distr. satellite-TV shows	2,431	124	10,784	426	1,400	(2,330)	6,900	400	15	1981
54.	**CERTIFIED COLLATERAL** (31) Chicago, IL Mgmt. info. svcs. to auto insurance cos.	2,365	123	13,779	559	2,206	(563)	16,148	284	18	1980
55.	**BEAUTICONTROL COSMETICS** Carrollton, TX Produces & sells cosmetics	2,358	123	23,035	937	3,328	(287)	13,815	156	12	1981
56.	**ATI MEDICAL** Glendale, CA Rents & sells medical equip.	2,334	122	6,889	283	654	66	4,275	110	6	1982
57.	**UNITED HEALTHCARE** (49) Minnetonka, MN Dvlps. & mkts. health-care systs.	2,276	121	216,246	9,103	7,241	299	54,454	2,300	400	1974
58.	**ROSS STORES** Newark, CA Operates off-price retail stores	2,202	119	375,945	16,330	7,055	(200)	126,346	5,000	320	1982
59.	**STRATUS COMPUTER** Marlborough, MA Mfrs. & mkts. computers	2,170	118	124,559	5,486	13,519	(1,196)	75,699	1,069	111	1980
60.	**ORACLE** Belmont, CA Dvlps. & mkts. software prods.	2,140	118	55,383	2,473	5,896	273	28,651	800	50	1967
61.	**MMI MEDICAL** Pomona, CA Diversified medical svcs.	2,130	117	22,192	995	1,155	51	15,456	200	10	1981
62.	**APOLLO COMPUTER** (14) Chelmsford, MA Mfrs. computer systs.	2,064	116	391,685	18,099	9,331	307	189,917	3,500	400	1980
63.	**DATAVISION** Deerfield Beach, FL Mfrs. multipurpose monitoring systs.	2,030	115	5,922	278	(958)	(2,036)	8,681	99	37	1978
64.	**PEOPLE RIDESHARING SYSTEMS** Newark, NJ Vanpool management	2,009	114	10,206	484	57	(24)	2,568	61	4	1981
65.	**NEW ENGLAND CRITICAL CARE** Marlborough, MA Provides in-home infusion therapies	1,965	113	21,086	1,021	3,038	8	18,049	191	8	1981
66.	**BEN & JERRY'S HOMEMADE** (74) Waterbury, VT Mfrs. & sells ice cream	1,938	112	19,729	968	853[9]	(56)	7,544[9]	160	25	1978
67.	**FIBRONICS INT'L** (28) Hyannis, MA Mfrs. fiber-optic comm. systs.	1,931	112	30,500[C]	1,502	(1,000)[C]	40	21,000[C]	400	75	1977
68.	**EMC** Natick, MA Mfrs. board-level computer prods.	1,928	112	66,588	3,283	18,630	522	67,214	392	6	1979
69.	**INNOVATIVE SOFTWARE** Lenexa, KS Dvlps. & mkts. software	1,922	112	13,464	666	2,692	106	10,646	150	8	1979
70.	**FOUNTAIN OIL & GAS** Denver, CO Oil & gas	1,898	111	3,837[C]	192	260[9]	(100)	1,100	15	3	1982
71.	**GIGA-TRONICS** Pleasant Hill, CA Mfrs. measurement instruments	1,885	111	19,691	992	3,843	1	18,498	120	15	1980
72.	**JACOR COMMUNICATIONS** (73) Cincinnati, OH Operates radio stations	1,882	111	23,566	1,189	2	(609)	25,557	297	45	1979
73.	**V BAND SYSTEMS** (22) Yonkers, NY Mfrs. telecomm. terminal equip.	1,871	111	36,832	1,869	5,159	131	25,777	220	14	1977
74.	**PATIENT TECHNOLOGY** (41) Hauppauge, NY Mfrs. health-care prods.	1,774	108	30,000[C]	1,601	(850)[9]	(26)	11,000[C]	302	7	1981
75.	**FINANCIAL NEWS NETWORK** Santa Monica, CA Nat'l cable-TV network	1,759	108	13,272	714	1,284	(4,031)	5,649	190	85	1981

C: company estimate; 9: nine-month figure

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76. STEP-SAVER DATA SYSTEMS Bala Cynwyd, PA Mkts. & supports computerized bus. systs.	1,707%	106%	$6,018	$333	$436	$93	$3,624	95	10	1981
77. LEXICON Fort Lauderdale, FL Supplier of on-line terminal prods.	1,705	106	16,982	941	(2,673)	(1,585)	9,359	275	20	1976
78. TECH DATA Clearwater, FL Distr. microcomputers	1,696	106	37,703	2,099	904	(576)	1,748	80	12	1973
79. CHRONAR Princeton, NJ Mfrs. photovoltaic panels	1,689	106	13,111	733	(1,263)[9]	(1,598)	11,868[9]	175	37	1975
80. CONSOLIDATED STORES (84) Columbus, OH Operates closeout retail stores	1,678	105	181,101	10,186	11,957	1,372	47,628	12,000	150	1967
81. AMERICAN COMM. & TV Gainesville, FL Satellite broadcasting	1,665	105	3,600[c]	204	(437)[9]	(222)	1,824[c]	106	15	1980
82. CABLE ADVERTISING SYSTEMS Austin, TX Provides TV advertisements	1,654	105	2,000[c]	114	(2,367)	(118)	2,908	100	6	1982
83. AUTOSPA Woodside, NY Auto maintenance franchisor	1,644	104	3,140	180	41	(150)	1,719	50	6	1980
84. RADYNE Bohemia, NY Data & satellite comm.	1,620	104	1,720	100	(1,067)	9	(111)	55	25	1980
85. FUDDRUCKERS (25) San Antonio, TX Operates & franchises restaurants	1,597	103	67,000[c]	3,948	(4,000)[c]	195	7,125[9]	3,050	92	1979
86. SATELLITE MUSIC NETWORK Dallas, TX Transmits satellite radio programming	1,590	103	15,750[c]	932	660[c]	(2,776)	7,852[9]	140	40	1961
87. CALGENE Davis, CA Plant biotechnology	1,559	102	8,128	490	(907)	(1,089)	37,934	96	42	1980
88. INT'L THOROUGHBRED BREEDERS E. Windsor, NJ Owns & operates racetracks	1,543	101	87,335	5,315	(33,993)	(1,484)	216,013	525	10	1980
89. MANUFACTURED HOMES (99) Winston-Salem, NC Sells manufactured homes	1,505	100	120,000[c]	7,478	3,381[9]	(60)	15,601[9]	931	60	1975
90. XICOR Milpitas, CA Mfrs. semiconductors	1,472	99	44,279	2,816	(3,812)	(10,839)	27,296	520	50	1978
91. DURAMED PHARMACEUTICALS Cincinnati, OH Mfrs. & sells generic drugs	1,441	98	15,429	1,001	1,818	(246)	4,736	200	2	1982
92. PRE-PAID LEGAL SERVICES Ada, OK Sells prepaid legal contracts	1,435	98	40,000[c]	2,606	2,292[c]	89	10,916[9]	180	20	1972
93. VIDEO SCIENCE TECHNOLOGY Dallas, TX Dvlps. video X-ray imaging systs.	1,400	97	6,435	429	17	17	2,361	175	20	1981
94. VM SOFTWARE Reston, VA Dvlps. & mkts. software prods.	1,374	96	27,027	1,833	4,928	375	20,674	213	20	1981
95. MEMTEK Billerica, MA Mfrs. & mkts. ultrafiltration systs.	1,333	95	4,627	323	(648)	(424)	1,530	75	15	1979
96. KAYPRO Solana Beach, CA Dvlps. & mkts. personal computers	1,329	94	77,925	5,452	39	(468)	24,214	576	80	1953
97. CIRCADIAN (59) San Jose, CA Mfrs. diagnostic medical instruments	1,314	94	16,018	1,274	2,081	(822)	12,508	177	30	1979
98. DEST (67) Milpitas, CA Mfrs. electronic document readers	1,307	94	18,590	1,321	1,109	(3,118)	19,001	160	45	1970
99. CERNER Kansas City, MO Designs & mkts. information systs.	1,303	94	17,356	1,237	2,291	(107)	16,349	170	17	1980
100. CODENOLL TECHNOLOGY Yonkers, NY Mfrs. semiconductor fiber optics	1,289	93	6,063	432	(1,984)[9]	(2,700)	6,462[9]	76	51	1980

[c]: company estimate; [9]: nine-month figure

THE INC. 100

PORTFOLIO

The numbers don't tell it all. Behind every fast-growing company is a winning strategy and the person who devised it

BY JOSHUA HYATT

TUNED IN

At King World, Oprah Is Queen

Most investors hunt for undervalued assets on Wall Street. But the King brothers go no further than their television sets. "Oprah is unbelievable, she's a phenomenon," says Michael King, who is ecstatic about his latest find.

King is chief executive officer of King World Productions Inc. (#35), the business that distributes Oprah Winfrey's popular daytime talk show. Winfrey's show may be responsible for as much as 15% of the company's revenues next year. "We've got a superstar," says King.

TV talker Oprah Winfrey
The Kings gambled: Had America had its fill of Donahue?

A superstar is exactly what King World needed two years ago, when it launched its effort to unseat Phil Donahue in the ratings. The company picked a tough target: Donahue had resided near the top of the charts for a dozen years. But the Kings—Michael's brother, Roger, is chairman—noticed that some local morning shows were beating Donahue in their own markets.

Playing tapes of potential contenders, the Kings dozed through a boring gabfest. Most of the shows consisted of what the industry calls "infotainment"—slick programs mixing news, how-to segments, and celebrity hype. Winfrey, whose show is based in Chicago, stood out. "There's something about her that comes through the screen," says King. "She can make you laugh during serious subjects, and she can also do shows on fashion and soap-opera hunks." Winfrey's show, which made its national debut last September, dominates Donahue in most markets where they compete.

Not that King World's other shows are having trouble pulling their weight. Before Winfrey, the company unearthed two other gems, "Wheel of Fortune" and "Jeopardy!" The pair of game shows are now the two highest-rated syndicated shows in television history. Thanks to them, King World's sales hit almost $146 million last year. "That one company could develop three major shows in three years defies the laws of chance," says Lee Isgur, entertainment analyst at Paine Webber. "No other company has even come close."

THE FIXER

Mark Connally: Follow the Son

Over the years, former Texas governor John Connally has profited from investments in radio stations and real estate. These days, his most profitable asset is probably his son Mark.

The former U.S. Treasury secretary is finding that it's nice to have another businessman in the family. Mark, chairman and chief executive officer of Cable Advertising Systems (#82), says that growing up the son of a famous father "had its pluses and minuses." More minuses of late, we suspect, considering his father's heavy investments in Texas's overbuilt real estate market. "We've worked together for a long time," says the elder Connally. "To that extent, we are a team."

It seems to work like this: John's investments run into serious problems, and then son Mark comes in for the rescue attempt. It started in 1974, when 22-year-old Mark volunteered to run John's 10,000-acre ranch. Mark tossed away some old family practices for the sake of the bottom line. He improved the baling of hay and raised more profitable purebred cattle. After about three years, he says, "the ranch did not generate profits, but we had reduced its losses."

Next, Mark spent about two years rising from lending officer to president of The First City National Bank of Floresville (Tex.), a rural bank that was 10% owned by—you guessed it—John. Mark understood the market; he was making loans to ranchers who had problems just like he had experienced. During Mark's five-year reign as president, he moved it onto the growth track: deposits rose from $18 million to $36 million and profits doubled. Looking for a bigger challenge in 1984, Mark moved to a

PHOTOGRAPH: ARTHUR SHAY, CLICK/CHICAGO

John (left) and Mark Connally
One spots trouble, the other tries to fix it.

troubled real estate investment company where you-know-who was half owner. It was beyond his help, though. "When your market goes away, there is not much you can do," he says.

At Cable Advertising Systems, the previous chairman was—of course—his father. When Mark became CEO in 1986, the company was out of cash and lacking direction. Now it is focusing on selling advertising time on cable-television systems. Last year, it lost about $2 million on sales of around $2 million, but Mark expects to see profits by the end of this year.

What will he do then? Perhaps it's best to ask his father. "I don't have another venture in mind for him," says John Connally, who is 70.

CURRENT EVENTS

Energetic Entrepreneurs Find New Outlets

"When people hear the phrase 'independent power producer,' it conjures up an image of some guy with a windmill on his roof," says John Kuhns, president and chief executive officer of Catalyst Energy Development Corp. (#1). But Catalyst, a $227-million concern that is the fastest-growing small public company in America, calls itself just that.

For that matter, so do Bonneville Pacific Corp. (#7) and PSE Inc. (#43). All three companies are beneficiaries of the Public Utility Regulatory Policies Act of 1978, which brought entrepreneurs into the staid utility industry. Utilities are required to buy power from the independent producers, and must pay whatever it would have cost them to produce the power themselves. "Electricity rates have risen so rapidly that it created a huge opportunity," says Kuhns. "So along we came."

MULTIPLE FRACTURES

Westworld Community Healthcare: Critical Condition

Had Michael Dunn's doctors performed operations the way he did, few patients would have emerged alive from Westworld Community Healthcare Inc.'s hospitals. As it is, Dunn's strategy landed the company (#18) on its deathbed, with losses of approximately $100 million on sales of about $178 million last year.

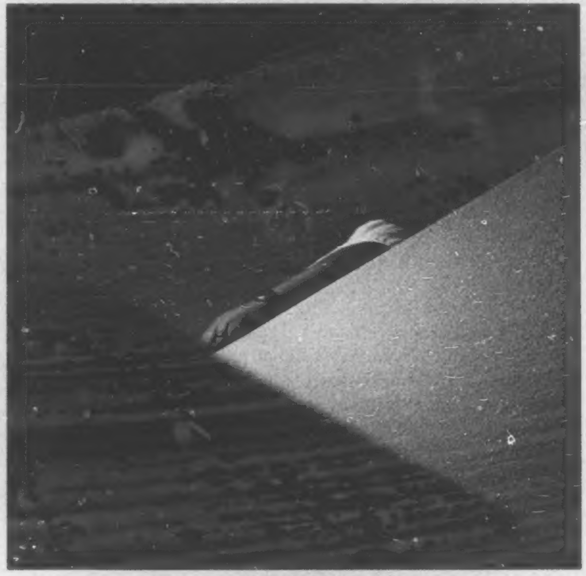
Dunn began acquiring rural hospitals in 1982, upgrading them with new personnel and modern equipment. Although Westworld's 38 hospitals became more expensive on a per-day basis, Dunn explained to patients that they would spend less time laid up.

Patients, though, felt they were being pushed out the door too quickly, and they voted to take their ailments elsewhere. In response, Dunn devised another marketing strategy: he would charge patients a standard fee based on their diagnosis, not on their length of stay. Medicare used the same tough billing system; by voluntarily using the system for *all* patients, Dunn figured that Westworld would be seen as a leader in the drive to hold down medical costs. As the empty beds filled up, profits would follow.

Dunn checked the billing idea with the home offices of about 40 big insurance companies, and "they had a very good reaction," he reports. But Westworld operates in small towns, where insurance offices demanded traditional, itemized bills. They refused to pay the bills that Westworld submitted. Consumers, who hated wrangling with their insurance companies, blamed Westworld.

On the verge of bankruptcy, Dunn sought help from a bank. The company eventually got $10 million, but the bank prescribed something to stop the bleeding: Dunn had to go. "I became the price for the bank's continuing to finance the company," he says.

His successor, Stephen Arterburn, has come up with a new marketing plan. The company divested more than half of its hospitals and some other assets late last year, taking a write-off that accounted for $71 million of the company's losses. Now Westworld's focus will be diversification into profitable specialty programs such as pain and alcoholism treatment. No doubt the company's stockholders could be among its first patients: Westworld's stock dropped almost 95% during last year's troubles.



Westworld founder Michael Dunn
His prescription for marketing nearly killed the company.

NO HORSEPLAY

Robert Brennan: Saddled With Legal Problems

Where Robert E. Brennan goes, two things follow closely behind: fast growth and a good lawyer.

Brennan, you may recall, founded First Jersey Securities Inc., a high-profile brokerage that specializes in over-the-counter stocks. Over 11 years, he built a $96-million company that attracted as much attention from the Securities and Exchange Commission as it did from investors. He resigned last year, scarred from continuous battles with federal officials, who investigated him for stock manipulation but never filed criminal charges.

Now, Brennan is back with International Thoroughbred Breeders Inc. (#88), a horse breeder and racetrack owner that he took public in 1981. But Brennan has brought his legal problems with him. A shareholder suit charges him with fraud and asks for $170 million. The lawsuit claims that the company, which lost about $34 million on sales of more than $87 million last year, withheld important information about its plans to rebuild a New Jersey racetrack. "He didn't give the stock buyers a fair shake," says Paul Wexler, the shareholders' lawyer. Neither Brennan nor his lawyer is talking.

PHOTOGRAPHS: TOP, JEFF BAKER/RIGHT, DAVID STRICK

BIG DEALS

Roy Speer: The Deal Maker Behind Home Shopping

Home Shopping Network Inc. (#10) took almost everybody by surprise last year when it turned out to be among the most successful public offerings of the past quarter century. By February 27, its stock had zoomed 1,000% above the May offering price. But Roy Speer, the billionaire who serves as chief executive officer, claims he wasn't surprised by investors' reaction or by the company's five-year compound annual growth rate of 265%. "I guess I'm just smart," he says.

Such bluntness is characteristic of the 54-year-old Florida developer and former criminal lawyer. Speer got the idea for a cable-television shopping network after a radio station he owned had no trouble selling can openers over the air.

HSN's Roy Speer
"I'm just smart."

Speer rarely talks about his past personal or business life. But in a recent interview, he pointed to some of his more unusual escapades.

☐ He founded a swanky, all-black nightclub in St. Petersburg, Fla., a deeply segregated city, about 30 years ago. "I had some very good friends who were black and wanted one," he explains. "So I built one for them." It was profitable, Speer claims, although it has since closed down.

☐ In the 1960s, he says he built retirement homes along Florida's coast. His company planned to build a $500-million community for 100,000 people. But the energy crisis brought hard times that forced him to liquidate the company, leaving major unfinished projects. "I didn't lose any money," he contends.

☐ He bought a 1,500-acre farm in Puerto Rico. After a few years of good harvests, he says, a hurricane destroyed it in the early 1970s. "After that, I made an agreement with God," notes Speer. "If he wouldn't send me any more hurricanes, I wouldn't grow any more vegetables."

☐ One of his planes was involved in a drug bust last year. According to Speer, drug dealers stole it; the plane was later recovered stuffed with marijuana. "They figured if they were going to fly, they might as well take the nicest plane," Speer reasons.

☐ He serves as a director or officer of about 25 Florida corporations, among them a beauty academy and a barbecue restaurant. Speer claims he can keep track of them all via his computer.

LINE ITEMS

■ Dasan Potti, chief executive officer of Duramed Pharmaceuticals Inc. (#91), earned spending money during high school by working as a Hindu priest.

■ Though he doesn't practice any Eastern religion, Benjamin Zitron, president of AutoSpa Corp. (#83), goes on 7- to 10-day fasts at least once a year. "It gives you a unique feeling of independence," he says. "It's a very good exercise in discipline."

■ INC. CEOs pay a high price for running a fast-growth business. Half say that demands of their job force them to dramatically reduce the time they devote to their family.

■ *"Daddy, would you take me to the shareholders' meeting, plee-ease?"* Fourteen CEOs wanted to be businessmen when they were growing up.

■ New England Critical Care Inc. (#65), which provides in-home intravenous infusions, estimates that 5% of its roughly 900 patients are AIDS patients. It expects that ratio to rise to 20% by 1992.

■ Of some 600 directors who sit on INC. 100 boards, fewer than 20 are women.

■ Richard J. Egan, president and CEO of EMC Corp. (#68), developed the memory for the guidance computer for the Apollo space missions.

■ S. Mort Zimmerman, chairman and CEO of Video Science Technology Inc. (#93), holds one of the original U.S. patents on the technology of closed-circuit television.

■ And Dr. Raymond V. Damadian, chairman of FONAR Corp. (#49), invented the nuclear magnetic-resonance technology for medical imaging—a scanning technology that uses no X-rays. His first machine is on permanent display at the Smithsonian Institution.

■ One of the new ice-cream flavors this year at Ben & Jerry's Homemade Inc. (#66) is Cherry Garcia, named for Jerry Garcia, leader of the Grateful Dead.

■ Frank J. Feitz, who advised big companies on installing phone systems, wrote and published a book in 1980 called *The Bum Connection*, an exposé of the phone industry. At $79 per, he sold 990 out of 1,000 copies in three months. The book gave him the idea for starting American Businessphones Inc. (#44), which services *small* companies.

■ Four of the INC. 100 CEOs work for no salary.

■ The average equity held by the CEOs is 15%.

■ Daniel M. Reichard III started a limousine service while in college. Four years after graduation, he founded People Ridesharing Systems Inc. (#64), which transports people to work by van.

■ Last year, one-sixth of ATI Medical Inc.'s (#56) roughly $7 million in revenues came from renting medical equipment to such TV shows as "St. Elsewhere," "Dallas," and "Dynasty."

■ About one-third of Saratoga Standardbreds Inc.'s (#45) $6-million revenue this year came from stud fees for one very happy stallion, Niatross, who is mated 175 times a year.

■ Edward M. Esber Jr., CEO of Ashton-Tate (#41), once dressed up as General George S. Patton Jr. at a companywide quarterly meeting. He wanted to let his employees know that "It's still a war out there."

■ Seventy of the 100 CEOs are founders of their companies.

■ Long Odds Department: AutoSpa Corp. (#83) and CitiPostal Corp. (#40) shared the same New York City address for nearly two years. The two companies' CEOs had been friends since 1969, and one rented space to the other.

■ Only 19 companies on the list are more than 10 years old.

■ And almost half the companies went public during the two boom years for initial public offerings, 1983 and 1986.

■ Before starting Bonneville Pacific Corp. (#7), Raymond Hixson was president of Snowbird, the Utah ski resort.

■ President Jim Manzi owns less than 1% of Lotus Development Corp. (#2), but his shares were worth about $2 million on February 27.

■ At ATI Medical Inc. (#56), company policy forbids employees from writing memos to one another. The policy is in writing.

■ Diminutive actor Mickey Rooney may be an unlikely champion of fast growth. But he is the spokesman for TCBY Enterprises Inc., a frozen-yogurt franchisor (#52).

■ King World Productions Inc. (#35), syndicator of "Wheel of Fortune," has not spent a cent of the more than $7.5 million it raised in its December 1984 public offering.

■ Fibronics International Inc. (#67), which makes fiber-optic communications systems, is the only company to appear on the list for the fourth consecutive year.

■ Dale Ballard, CEO of Ballard Medical Products (#26), launched a stock ownership plan for employees in 1958. That was about 20 years before tax breaks made them popular.

■ Michael Brown and Mark Callegari formed their partnership in college when they founded Sound Energy, a portable disco service with sales of about $5,000 a year. Next, they launched Innovative Software Inc. (#69).

■ I. William Krause, CEO of 3Com Corp. (#38), was one of Hewlett-Packard Co.'s two original computer salesmen, hired in 1967.

PHOTOGRAPH: LAWRENCE BARNS

DINGDONG

BeautiControl: The Concept Rings a Bell

If you were Dick Heath's friend, what would you have told him?

You might have suggested that he was living in the Dark Ages, that the world had passed him by, that his idea for a new company would have been successful in 1950. But . . . .

No "buts" for Heath. In 1981, he was sure his company, BeautiControl Cosmetics Inc. (#55), could prosper by selling cosmetics in consumers' homes. Yes, he knew that about 70% of women between the ages of 18 and 54 had exchanged ironing boards for boardrooms. And he could see that venerable Avon Products Inc., having ignored that shift, was about to face major problems both in recruiting new salespeople and in finding customers home during the day. But Heath was convinced that he could capitalize on that changing market.

Such direct sellers as Avon and Mary Kay Cosmetics have always relied on a bottomless pool of housewives both to buy and sell their products. Heath set out to appeal to career-minded women instead. His 9,000 sales reps pay $200 for 30 hours of training, plus another $300 for such tools as cases of beauty products and manuals. "The saleswoman has made a substantial financial commitment, so she's committed to it," says Heath, whose 50% turnover rate is one of the industry's best.

To attract customers, Heath's salespeople visit image-conscious businesses such as banks and real estate offices. They make a brief presentation to the manager, then put on a 45-minute workshop for female employees during lunch or after work. The next step is a free "color analysis" in their homes to help them choose the right makeup. "My lipstick is not that different from the next guy's," admits Heath. "So it's the service I add." It is a service that helped bring $23 million in sales and $3 million in earnings last year.

Both Mary Kay and Avon have toyed with similar strategies. Heath expects an ugly battle from the giants of the $15-billion cosmetics industry. "This is an industry in transition," he says. "Some of the giants may not be able to adjust, but the need for this service hasn't shrunk."

Dick Heath, founder of BeautiControl

At first blush, his business idea sounded out of date.

HOW THE INC. 100 ARE SELECTED

The 1987 INC. 100 is the ninth annual ranking of the 100 fastest-growing publicly held smaller companies in the United States. Companies are ranked by the percentage increase in net sales (or total revenues) between 1982 and 1986.

■ To be considered for the INC. 100, each company must meet the following criteria:

1. The company is an independent corporation, not a subsidiary or division of another company. Regulated banks and utilities and holding companies are excluded.

2. The company was publicly held as of December 31, 1986.

3. The company shows an operating/sales history of at least five years.

4. The company's 1986 sales exceeded its 1985 sales. Companies showing growth over the five-year period, but a decline in 1986 sales are excluded.

5. The company's 1982 sales were at least $100,000, but no more than $25 million.

■ The INC. 100 research staff used company prospectuses, 10-Ks, annual reports, and various directories to maintain the in-house database of publicly held smaller companies. Using audited financial statements, researchers then ranked the top 100 companies.

■ An editorial team led by special projects editor Sara Baer-Sinnott and research assistant Deborah L. Weeks selected the 1987 INC. 100. The research was conducted by Judy Angelicola, Laura Ashe, David Coles, Elizabeth Kaplan, Teri Lammers, Lisa Pabich, Jodie Slothower, Ann Sussman, and Elizabeth Waters.

INC. 100 INDEX

Company (rank)

Advanced Telecommunications (13)
American Businessphones (44)
American City Business Journals (11)
American Communications & Television (81)
American Network (4)
Apollo Computer (62)
Applied Biosystems (50)
Ashton-Tate (41)
AST Research (6)
ATI Medical (56)
AutoSpa (83)
Ballard Medical Products (26)
BeautiControl Cosmetics (55)
Ben & Jerry's Homemade (66)
Bio-Logic Systems (31)
Bonneville Pacific (7)
Brentwood Instruments (46)
Cable Advertising Systems (82)
Cade Industries (14)
Calgene (87)
California Biotechnology (33)
Catalyst Energy Development (1)
Cerner (99)
Certified Collateral (54)
Chronar (79)
Circadian (97)
CitiPostal (40)
Codenoll Technology (100)
Computer Memories (28)
Consolidated Stores (80)
Datavision (63)
DEST (98)
Doskocil (39)

Company (rank)

Duramed Pharmaceuticals (91)
EMC (68)
Entre Computer Centers (21)
Envirodyne (23)
Expeditors Int'l (22)
Fibronics Int'l (67)
Financial News Network (75)
FONAR (49)
Fountain Oil & Gas (70)
Fuddruckers (85)
Giga-tronics (71)
Home Shopping Network (10)
Informix (42)
Innovative Software (69)
Insituform Southeast (27)
Int'l Thoroughbred Breeders (88)
Iomega (16)
Jacor Communications (72)
Kaypro (96)
King World Productions (35)
Kings Road Entertainment (25)
Lam Research (9)
Lexicon (77)
Lotus Development (2)
LSI Logic (34)
Manufactured Homes (89)
MBI Business Centers (36)
Memtek (95)
Mentor Graphics (17)
MiniScribe (37)
MMI Medical (61)
National Healthcare (5)
New England Critical Care (65)
Newman Communications (32)
Northeastern Mortgage (12)

Company (rank)

Oracle (60)
Patient Technology (74)
People Ridesharing Systems (64)
Pre-Paid Legal Services (92)
Price Communications (8)
PSE (43)
Radyne (84)
Ross Stores (58)
Sahlen & Associates (19)
Saratoga Standardbreds (45)
Satellite Music Network (86)
Shanley Oil (20)
Step-Saver Data Systems (76)
Sterling Software (15)
Stratus Computer (59)
Symbion (30)
Symbolics (24)
TCBY Enterprises (52)
Tech Data (78)
Tekelec (47)
Teknowledge (51)
Telstar (53)
3Com (38)
United HealthCare (57)
V Band Systems (73)
Video Science Technology (93)
Vitronics (48)
VM Software (94)
Walker Telecommunications (29)
Westworld Community Healthcare (18)
Wyse Technology (3)
Xicor (90)

Research assistance for "The INC. 100 Portfolio" was provided by Teri Lammers, Jodie Slothower, and Ann Sussman.

PHOTOGRAPH: JEFF BAKER

FROM RICHES TO RAGS ...AND BACK

For the first time in four years, the INC. 100 outperformed the leading averages

BY ROBERT A. MAMIS

IT WAS A 12-MONTH PERIOD DURING which just about every imaginable market index erupted to an all-time high. So a casual investor might expect that the most imaginative index of all—INC.'s fanciful calculation of the market performance of the year's fast growers—would go along with the crowd. Indeed it did, but its gain of 36% barely nosed out most of the thundering herd of comparable popular indexes (see the box below).

Ordinarily in a roaring bull market, swift-moving stocks like the lightly capitalized throng tabulated here surge well out in front of the elephantine DJI. Four years ago, in a similarly frenzied atmosphere, they accomplished just that, netting a whopping 72% gain as the Dow posted 37%. That they didn't this time around is partly accounted for by a technicality, and partly by a new fact of investment life.

In 1986, the arithmetic divisor employed to keep the 30-stock DJIA from becoming distorted by splits, dividends, and listing changes hit an historic low at 0.889, having started out in 1928 at, of course, 30. Last year the divisor thus actually became a multiplier. The effect was that as the Dow's blue-chip components, chosen to represent the universe of U.S. industry, carried it into higher ground, the index gathered new statistical momentum and reacted with proportionately larger moves than ever before.

The new fact of investment life is simply that profitability is more important than sizzling sales growth. The rather puzzling circumstance that only 53 of the INC. 100 stocks advanced in a major bull market, during which no fewer than 28 of the 30 DJI stocks went up, shows what happens when revenue gains aren't brought to the bottom line. Nine of INC.'s top 20 sales gainers actually *lost* ground in the market; or in slightly different perspective, 27 of the list's 44 stock losers were nonetheless able to place in the top half of sales growth. This year especially, savvy stock traders were insisting that earnings accompany sales. Not only did holders bail out if earnings fell short of expectations, but new buyers were reluctant to jump back in, leaving the stock of many an income-poor corporation wilting on the vine.

With so many emerging issues to choose from—and those rendered increasingly accessible to institutions by NASDAQ's expanding automated market—no wonder speculative fervor dampened. The critical condition of Westworld Community Healthcare Inc. (WCHI), #18 in sales growth but the runaway booby-prizewinner here, demonstrates how fragile sales dollars can be despite their giddy rate of rise on paper. The precautionary tale told on page 59 is confirmed by the 92% drop of WCHI's stock, trading at the price of a few aspirin when last seen. The 99th-place stock, National Healthcare Inc.—also a rural medical service up to its ears in, let us say, entrepreneurial excess—didn't fare much better from its rank as INC.'s swift-grower #5.

HOW THE INC. 100 STACK UP

Thirty-six percent profit or no, it's all academic, anyway, since no real-life investment could have been made in the 1987 INC. 100. On the "buy" date, February 28, 1986, not even Ivan Boesky could have revealed which companies were to qualify for the list that INC. researchers compiled nearly 12 months later.

To lend familiar substance to the whimsical outcome—and to cause each price change to be mathematically comparable with every other—INC. put $100 into each company at the price its stock was reported (by Standard & Poor's Corp.) to have been available on February 28, 1986, or as an initial public offering. The shares purchased with the fictional C-note were "sold" on February 27, 1987, thus cementing 53 gains, 3 washes, and, alas, 44 losses. Now that it's real, however, the list can be studied for future prospects.

RELATIVE MARKET PERFORMANCE

	2/28/86	2/27/87	% change
DJI	$1,709	$2,224	30%
S&P 400	250	323	29
AMEX	257	322	26
NASDAQ IND'LS	357	444	24
INC. 100	100	136	36

INC. 100
MARKET PERFORMANCE

Company (symbol/exchange)	1987 rank	2/28/86	2/27/87	$100 worth
1. Home Shopping Network (HSN/A)[1]	10	$18.00	$33.00	$1,100.00
2. ATI Medical (ATIM/O)[2]	56	2.00	10.25	512.50
3. CitiPostal (CITI/O)[3]	40	0.25	4.50	450.00
4. Sahlen & Associates (SALN/O)	19	0.81	2.63	323.08
5. Lotus Development (LOTS/O)[4]	2	24.00	23.00	287.50
6. Duramed Pharmaceuticals (DRMD/O)[5]	91	6.00	17.00	283.33
7. VM Software (VMSI/O)[6]	94	20.25	36.50	270.37
8. Oracle (ORCL/O)[7]	60	15.00	38.50	256.67
9. Ashton-Tate (TATE/O)[8]	41	23.00	26.50	230.43
10. Catalyst Energy Development (CEDC/O)	1	11.13	25.63	230.34
11. Telstar (TSTR/O)	53	0.13	0.28	225.00
12. New England Critical Care (NECC/O)[9]	65	10.00	22.25	222.50
13. MiniScribe (MINY/O)	37	5.69	12.13	213.19
14. 3Com (COMS/O)	38	10.88	22.88	210.34
15. Wyse Technology (WYSE/O)	3	13.50	27.88	206.48
16. Tech Data (TECD/O)[2]	78	9.75	20.00	205.13
17. Kaypro (KPRO/O)	96	1.44	2.94	204.35
18. Envirodyne (ENVR/O)	23	14.50	28.00	193.10
19. Informix (IFMX/O)5	42	7.50	14.00	186.67
20. Ballard Medical Products (BMED/O)[10]	26	9.75	12.00	184.62
21. TCBY Enterprises (TCBY/O)[11]	52	24.25	19.25	178.61
22. Expeditors Int'l (EXPD/O)[12]	22	14.63	16.25	166.67
23. Datavision (DVIS/O)	63	1.88	3.13	166.67
24. EMC (EMCS/O)[13]	68	16.50	27.50	166.67
25. Memtek (METK/O)	95	1.63	2.69	165.38
26. Innovative Software (INSO/O)	69	12.00	19.75	164.58
27. Mentor Graphics (MENT/O)	17	17.25	28.00	162.32
28. King World Productions (KWP/N)[14]	35	39.75	20.75	156.60
29. V Band Systems (VBAN/O)[15]	73	26.75	27.50	154.21
30. Step-Saver Data Systems (CODA/O)	76	4.00	6.13	153.13
31. Price Communications (PR/A)[16]	8	9.25	11.25	152.03
32. Stratus Computer (STRA/O)	59	21.25	31.75	149.41
33. Financial News Network (FNNI/O)	75	9.50	14.00	147.37
34. Consolidated Stores (CNS/A)[17]	80	22.00	16.13	146.59
35. Cerner (CERN/O)[9]	99	16.00	22.25	139.06
36. Certified Collateral (CARX/O)[18]	54	16.00	14.25	133.59
37. Vitronics (VITX/O)	48	4.50	6.00	133.33
38. Xicor (XICO/O)	90	9.75	12.88	132.05
39. Apollo Computer (APCI/O)	62	15.50	20.00	129.03
40. Advanced Telecommunications (ATEL/O)	13	9.63	12.38	128.57
41. Applied Biosystems (ABIO/O)	50	32.00	41.00	128.13
42. Ben & Jerry's Homemade (BJIC/O)	66	14.50	18.50	127.59
43. Chronar (CRNR/O)	79	11.75	14.88	126.60
44. Fountain Oil & Gas (FGAS/O)[19]	70	0.50	0.63	125.00
45. DEST (DEST/O)	98	4.00	4.88	121.88
46. Teknowledge (TKAI/O)[7]	51	13.00	15.38	118.27
47. AutoSpa (LUBE/O)	83	1.13	1.31	116.67
48. California Biotechnology (CBIO/O)	33	16.00	18.38	114.84
49. American City Business Journals (AMBJ/O)	11	22.50	25.25	112.22
50. Bonneville Pacific (BPCO/O)[20]	7	9.00	9.75	108.33
51. Pre-Paid Legal Services (LEGL/O)[21]	92	$14.75	$12.63	$106.99
52. People Ridesharing Systems (RIDE/O)[22]	64	8.25	8.00	106.67
53. Computer Memories (CMIN/O)	28	2.50	2.63	105.00
54. American Communications & TV (ASTV/O)	81	0.13	0.13	100.00
55. Jacor Communications (JCOR/O)	72	7.00	7.00	100.00
56. Radyne (RADN/O)	84	1.25	1.25	100.00
57. Symbion (SYMB/O)	30	2.81	2.75	97.78
58. Insituform Southeast (ISEC/O)[5]	27	7.75	7.50	96.77
59. American Businessphones (ABPI/O)	44	7.00	6.75	96.43
60. Calgene (CGNE/O)[20]	87	14.00	13.50	96.43
61. Saratoga Standardbreds (STGA/O)	45	2.88	2.75	95.65
62. Giga-tronics (GIGA/O)	71	13.00	12.00	92.31
63. Northeastern Mortgage (NM/A)[23]	12	10.25	8.25	88.54
64. Sterling Software (SSW/A)	15	15.25	13.50	88.52
65. Manufactured Homes (MNH/A)	89	13.75	11.63	84.55
66. LSI Logic (LLSI/O)[24]	34	28.25	15.88	84.29
67. Entre Computer Centers (ETRE/O)	21	6.75	5.50	81.48
68. Cade Industries (CADE/O)	14	1.25	0.97	77.50
69. Fibronics Int'l (FBRX/O)	67	13.25	10.13	76.42
70. Satellite Music Network (SMNI/O)	86	6.50	4.75	73.08
71. AST Research (ASTA/O)	6	26.13	19.00	72.73
72. Kings Road Entertainment (KREN/O)	25	5.13	3.63	70.73
73. FONAR (FONR/O)	49	9.38	6.50	69.33
74. Codenoll Technology (CODN/O)	100	15.75	10.75	68.25
75. MMI Medical (MMIM/O)	61	7.50	5.00	66.67
76. Ross Stores (ROST/O)	58	12.00	8.00	66.67
77. Lexicon (LEXI/O)	77	4.63	3.00	64.86
78. Patient Technology (PTI/A)	74	7.38	4.75	64.41
79. Lam Research (LRCX/O)	9	11.88	7.50	63.16
80. Walker Telecommunications (WTEL/O)	29	8.38	5.19	61.94
81. Doskocil (DOSK/O)	39	1.75	1.06	60.71
82. Bio-Logic Systems (BLSC/O)	31	12.00	7.25	60.42
83. Tekelec (TKLC/O)[2]	47	12.25	7.00	57.14
84. PSE (POW/A)[2]	43	14.50	8.25	56.90
85. Cable Advertising Systems (CABS/O)	82	2.44	1.38	56.41
86. United HealthCare (UNIH/O)	57	13.88	7.63	54.95
87. American Network (ANWI/O)	4	3.00	1.63	54.17
88. Brentwood Instruments (BRWD/O)	46	7.25	3.63	50.00
89. BeautiControl Cosmetics (BUTI/O)[7]	55	16.00	7.25	45.31
90. Fuddruckers (FUDD/O)	85	4.63	2.00	43.24
91. MBI Business Centers (MBOX/O)	36	10.50	4.50	42.86
92. Video Science Technology (VIDS/O)	93	0.50	0.19	37.50
93. Iomega (IOMG/O)	16	17.50	6.13	35.00
94. Symbolics (SMBX/O)	24	12.13	4.00	32.99
95. Circadian (CKDN/O)	97	14.00	4.50	32.14
96. Newman Communications (NBOC/O)	32	3.25	0.88	26.92
97. Int'l Thoroughbred Breeders (ITB/A)	88	3.63	0.88	24.14
98. Shanley Oil (SOCM/O)	20	0.72	0.16	21.74
99. National Healthcare (NHCI/O)	5	14.63	3.00	20.51
100. Westworld Community Healthcare (WCHI/O)	18	14.50	0.75	5.17

[1] first public, 5/86; 3:1 split, 9/86; 2:1 split, 1/87 [2] first public, 5/86 [3] first price as merged entity, 5/86; recapitalized ¼:1, 2/87 [4] 3:1 split, 2/87 [5] first public, 9/86 [6] 3:2 split, 12/86 [7] first public, 3/86 [8] 2:1 split, 1/87 [9] first public, 10/86 [10] 3:2 split, 2/87 [11] 3:2 split, 4/86; 3:2 split, 7/86 [12] 3:2 split, 9/86 [13] first public, 4/86 [14] 3:1 split, 9/86 [15] 3:2 split, 2/86 [16] 25% stock dividend, 1/87 [17] 2:1 split, 6/86 [18] 3:2 split, 8/86 [19] as of 10/86 [20] first public, 7/86 [21] 5:4 split, 1/87 [22] 10% stock dividend, 11/86 [23] first public, 5/86; 10% stock dividend, 2/87 [24] 3:2 split, 3/86

Bookkeeper on vacation
Quarterly audit deadline
Need programming help
Books don't balance
Special project deadline
Accounts receivable to be analyzed
Data entry backlog
Payroll taxes due
Inventory
to be
checked

PRESSURE?

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Bring In The Best.

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The 98th-place market performer, Shanley Oil Co., was INC.'s 20th-best sales grower; investors dumped the stock as the year's losses climbed.

Not that soaring sales are in themselves necessarily suspect. Second in revenue growth, Lotus Development Corp. efficiently converted operations-generated sales into steady earnings and thence into fourth position among stock performers. Taking quite a different route to the same goal, private CitiPostal Corp. maneuvered its stock swap with a dormant public company into virtually overnight market gains (see Finance: "The Perfect Acquisition," January), while acquisition-minded Sahlen & Associates Inc. used tax credits to enhance already climbing per-share earnings.

It falls to #1 Home Shopping Network Inc. (HSN) to set perhaps the most instructive example. Newly public in May of last year at a surprisingly reasonable $18 a share, HSN stock proceeded to split twice as it took off on a dizzying ascent probably unmatched in the annals of underpriced initial public offerings (see Insider: "Making Mail Order Obsolete," October 1986). The stock of the television retailer reached 47—the presplit equivalent of 282—before tiring. But tire it did. HSN followers were let down by quarterly sales that more than quadrupled those of the prior-year quarter. Experts had predicted they'd be closer to quintupled. Within a few weeks, HSN stock had given back about half its gain.

This year especially, savvy stock traders were insisting that earnings accompany a growth in sales. Holders bailed out if earnings fell short of expectations.

Which goes to show that no matter how well a company performs, there's always someone who thinks it should do better. One might feel that way about the 1987 INC. 100, yet its positive performance far outshone last year's, when INC.'s group came in last among the averages. Even with misfortune yapping at the heels of a few wretched stragglers, the current upstarts managed to outpace the slow-and-steady tortoises of the Dow. And on balance they trounced the other fleet-footed hares in the over-the-counter market, whence 90 of INC.'s own entrants come. So our revenue growers must be doing something right, after all. □

ORDINARY BUSINESS

BY TOM RICHMAN

What would happen, my colleague John Case wondered aloud, if you took the INC. 100 list and stripped off all the obvious hyper-growth companies? Say you cleaned out all the running-shoe, computer, high-tech, biotech, health-care, fast-food, and communications businesses. Say you eliminated companies that trade on their locations in economic hot spots—Austin, Atlanta, or San Diego, for instance. How many companies, he wondered, would there be left?

Not many, it turns out. There are two horse breeders and a mortgage company, a sewer pipe repairer and a private investigator, an ice-cream maker, a vanpool manager, an air-freight forwarder, and two off-price retailers—altogether, about a dozen-and-a-half oddball businesses that don't fit the fast-growth stereotype. And they sure don't fall into neat categories. Some acquire; some don't. Some make; others sell. Two, the franchisor of auto-maintenance centers and the plastic cutlery and drinking-straw maker, have bankruptcies in their family trees; most do not.

Unifying themes? None apparent. In fact, these unlikely hyper-growth companies don't seem connected by much of anything except . . . well, they are unlikely. They're just ordinary businesses that somehow achieved warp speed. What in the world, I began to wonder, were a Kansas sausage-and-pepperoni maker, an Oklahoma insurance company, and a seller of cheap mobile homes—what were they doing consorting with the likes of Lotus Development (#2), Apollo Computer (#62), and Ross Stores (#58)?

PHOTOGRAPHS BY MARION ETTLINGER

ROBERT SAULS: MOBILE HOMES

Robert Sauls told me he read somewhere that raising the brain temperature one degree doubles one's thinking efficiency. So he gets the shower water as hot as he can stand it and runs it on his face and then on the back of his head. "I got to thinking about things so dang hard the other morning," he says in his brand-new Tampa office, "that I stayed in there for 36 minutes." Then he gets out and records any ideas he's had on a tiny dictating machine. "The good ideas you get," he says, "are so simple, it's hard to think of them again."

Sauls's down-home business—selling low-end mobile homes to rural southerners—has grown as fast as the kudzu vine to be the first or second largest of its kind in the country, depending on who's doing the counting. But it hasn't gotten any fancier, a lesson he picked up at the first trailer lot he opened. People kept driving through. "Finally I hollered at one. 'Hey,' I said, 'how come you don't stop?' The fella said he didn't think he could afford anything. That taught me a lesson: don't make it too fancy; just keep it neat."

Unsophisticated? Oh, yeah. Like when he bought a small manufacturer of mobile homes to back up his regular suppliers. He paid $856,000 for the plant, which produced pretax income of $800,000 the next year. "If I ain't mistaken," he offers, "it returned near 100% on our investment." Not bad for an orphan boy who never got through high school.

The company, Manufactured Homes Inc. (#89), is Sauls's second. The first, also a mobile-home retailer, he started in 1967, sold in '70, and stayed on to manage for the next three years. Then, idled by a noncompete clause, he spent two years planning his comeback. The difference, he says, is that he took the second company public. "A private company in this business can't get enough cash money to sustain it. Otherwise," he says, "there ain't nothin' changed." Same product, same market, same selling proposition.

Who's his market? "People who were born and raised in a farmhouse, hell, they think one of those mobile homes is a damn mansion." Sauls sells fully furnished and applianced mobile homes, strictly in the Southeast, and mostly to people who can't afford anything else. "I have found that it don't never change. In good times, these products sell along with others. In bad times, they're the *only* ones that sell."

Which means he's not plagued by repossessions. "Dealers forget," says Sauls, "that you got to live with those [financing deals] for 15 years, and in 15 years chances are you're going to get an economic downturn. Then people start looking around to see where they can move to save money. When they're in my [mobile homes], they find they are already there. They can't live cheaper anywhere else."

MANUFACTURED HOMES INC.: SALES $120M; EARNINGS $2M; COMPOUND ANNUAL GROWTH 100%

"The secrets to success are so damn simple that people just don't see 'em. So I don't want to tell the competition the simple things."

Why just the Southeast? Because five states there account for 37% of the entire national mobile-home market. Other retailers that have "gone runnin' off out yonder just because it's a hot market"—to Texas, for instance, when oil was booming—end up with a lot of used merchandise on their lots and no buyers when the hot market suddenly turns cool.

You can make a lot of money selling cheap trailers if you sell a lot of them, as Sauls does. "So," he says, "I can take a company that was just making a tad of profit and [by bringing it under the Manufactured Homes umbrella] make it a real profit center." Discounts for volume purchases help Sauls reduce the acquiree's cost of goods sold. His volume and reputation enable his dealers to command a larger cut of the bank's financing profit.

Sauls also insists that his dealers finance most of what they sell with recourse loans, which means that if the buyer defaults, the dealer gets the trailer back. It means he gets a lot more loans approved by the bank than if he were looking for non-recourse protection. And if a unit does come back, it's going to be pretty easy to resell. "There's two things we don't do," Sauls says. "We don't sign recourse on doublewides or on any mobile home with payments more than $300 a month." Why? Because the disassembly and reassembly makes repossessing a double-wide expensive, and because he doesn't want the high-priced homes coming back. The average factory worker in the Southeast, he says, makes about $310 a week. "Those are our people. If a big mobile home comes back, I'm out of my marketplace. The majority of my people couldn't afford it."

The growth? It's mostly through acquisition. A mobile-home lot, like an auto lot, can serve only a limited local market. "After about six years," he claims, "it's doing all the business it's going to do." To start a new site from scratch, raise it to profitability, and then recoup the start-up losses takes, Sauls says, about a year. Better to buy a going operation—but not until the seller is good and ready to sell. He started talking to the owner of a chain of Florida sales sites a year and a half before the deal closed. "We don't pester people. We decide what we want to pay and either we do it or not. . . . The first time, the man told me what he'd take for it. . . . This last time, he asked me what I'd give him," Sauls recalls. "That put a different light on it."

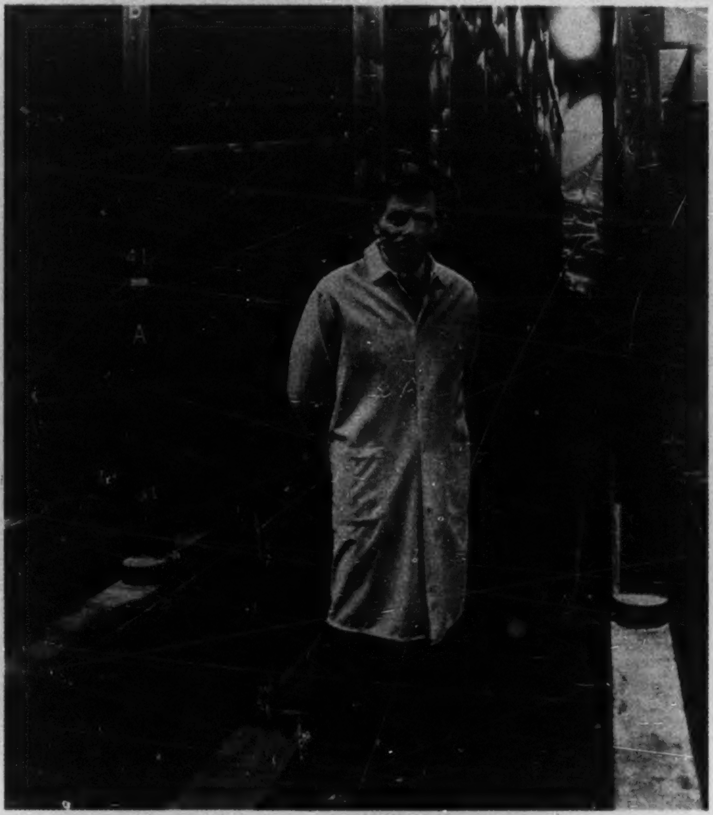
Sauls buys management, not just the lot. "So far as employees are concerned," he says, "that man still runs the company. That's the only way it'll work." There's a five-year earnout period, the details of which he doesn't want to discuss.

And there's the five-to-one management structure, which he also doesn't want to talk about. "The secrets to success are so damn simple that people just don't see 'em. So I don't want to tell the competition the simple things."

Elaborate management mechanisms confound him. "You can control lots of things without controlling 'em," he says. Meaning? Meaning, for instance, he doesn't have any fancy rules for how many times managers should turn over their inventory. He promises them a 10% bonus for every annual turn of over three and a half.

Suited up, Sauls, 58, could be a banker, lawyer, or doctor in any small southern town. He's got the thinning gray hair, the soft white hands. The new office in a Tampa high rise is Sauls's attempt, undertaken with some reluctance, to distance himself from the new management he's installed in the Winston-Salem, N.C., corporate headquarters. "I've been there so damn long, people have a problem accepting other people's authority while I'm still there. The only way for me to solve that is to get out."

Freed of routine responsibilities, Sauls can play the chairman's role—like considering new opportunities. He's thinking about mobile-home developments, for example. But he's got a one-button speed dialer on his telephone so no one back in Winston-Salem gets to feeling too important. "An individual who thinks he's a real wheel just disgusts the hell out of me. A wheel is something for a dog to cock his leg up at." Or tries to get too fancy. "I tell 'em you can make money off some of the people all of the time. . . . I understand these people because I been one of them all my life. . . . I was brought up real hard, worked all my life, and never had nothin'. . . . There's more people in that category than in any other in the country."



DOSKOCIL COS.: SALES $223.9M: EARNINGS $4.7M; COMPOUND ANNUAL GROWTH 142%

Look around the plant. That's where you see it: production efficiency. Most everything, including the walls and floors, came out of Doskocil's head.

LARRY DOSKOCIL: PIZZA TOPPINGS

Twenty-six years ago, Larry Doskocil wanted only to be the best sausage maker in Kansas. Now, he wants to build a billion-dollar business. You might wonder whether the man who can do one can also do the other.

Doskocil's story is classic. Fired by his vision, young Larry leases an old chicken hatchery in Hutchinson, Kans., about 45 minutes from Wichita, and starts his business. From five a.m. till noon he makes sausage; from noon till five he delivers it to retailers; evenings, he kills hogs for the next day's production; nights, he sleeps on a cot in the plant. As business picks up, he hires a man to drive the truck and then hires another.

The next year, 1962, hungry Larry stops to eat at a Pizza Hut Inc. franchise, a small start-up chain out of Wichita. The local owner buys some Doskocil sausage to crumble on top of his pizza, and before you can say double cheese with pepperoni, Larry Doskocil finds his market in the about-to-boom pizza industry. As Pizza Hut and later Godfather's Pizza Inc. grow, so grows Doskocil. By 1981, Larry Doskocil—modest, reserved, and seriously religious—isn't just the sausage king of Kansas; he's on his way to becoming the pizza-topping king of the country.

Now what?

Good question. It comes up frequently in Hutchinson these days, where there's a general notion that as growth in pizza flattens out, the company ought to be building on its strengths—whatever those are.

What was it that fired Doskocil's growth?

Luck—stumbling into the pizza market just as it started to climb—helped. Of course, Larry Doskocil had the good sense to recognize a growth opportunity and the gumption to pursue it. What else? Not marketing. The company sold to just a few huge chains and didn't worry about cultivating the proliferating smaller buyers and independents. It had no marketing department. Not much new-product development. Sausages and pepperoni—that's what the company made. Not fancy financing. Larry Doskocil just used earnings and Small Business Administration guaranteed loans to pay for the growth.

Look around the plant, though. That's where you see it: production efficiency. Most everything in there, including the walls and the floors, came out of Larry Doskocil's head. He's always been willing to spend money up front if the expenditure would save over the long run. Precast concrete walls, he determined, would reduce his long-term maintenance and cleaning costs. When he couldn't get precast locally, he manufactured his own. He made his own superefficient insulation—better than what he thought was available commercially—to save energy costs. For reliability of supply, Doskocil Cos. (#39) owns its own gas wells. It made or modified all its own production equipment and automated any processing step in which automation made sense. As soon as he put a machine to work, Larry Doskocil began tinkering to improve its efficiency while he worked at designing the next generation. Doskocil wasn't just the largest supplier of pizza toppings and still growing, Larry Doskocil made sure it was the low-cost quality producer.

Rather, it used to be. Now, he's not so sure.

In 1970, when Doskocil was still privately held, Larry Doskocil gave 40% of the stock to some of his key managers. In a few years, the predictable liquidity issue flared: what good is the stock, some of his new partners wanted to know, if we can't convert it to cash? A few of them got persistent. Larry entertained but rejected offers from other companies to buy the business. How much was it really worth? He didn't know, and anyway, did he really want to quit? He's only 56 today. He hired an experienced chief financial officer to help him sort things out, and Larry Doskocil, who used to make just sausage, now started making deals.

Doskocil and his partners hired an investment banker, who eventually advised them to sell, but they wound up instead in 1983 doing a reverse merger with a corporate shell partly owned by the Bass brothers' organization, in Fort Worth. After a public offering to retire the bank debt that funded the merger, Doskocil emerged with a public market for its stock, a healthy balance sheet, some nice tax-loss carryforwards, and a working relationship with some Texas wheeler-dealers who took a shareholder's interest in the company's fortunes and who helped it hit the acquisition trail. They bought Stoppenbauch Inc., a pepperoni, smoked meat, and cheese maker in Wisconsin. They bought a crabmeat processor in South Carolina. They considered but rejected a poultry deal.

So by '85, Doskocil had all the strengths it didn't have before: fancy financing capabilities, thanks to (another) new CFO and the Bass connection; a marketing organization, thanks to new chief executive officer Harold Dick and his McKinsey & Co., Frito-Lay, and Norton Simon background; product diversity—and a spot on the INC. 100—thanks to the acquisitions; and a more ambitious long-range goal, thanks to chairman of the board Larry Doskocil. The deal with the Basses "blossomed us out," he says. "It showed us what we can do, which is more than just make sausage. . . . We grew up with the pizza industry, but now we got to get off that shirttail because it's growing too slow. . . . We need to find that next magic product." That, he says, is his job now.

Great. Except that in the meantime, the company lost its productivity edge.

Gross margins and net income began to slide in '85 and continued into '86. Doskocil ran into price resistance. Competitors had caught up to its processing technology and productivity. The company had lost its cost advantage. "We're no longer five years ahead," says Larry Doskocil, "not even three years."

Who can fix it? "It's Larry," says CEO Dick. "Last summer I asked him, 'Larry, would you please go back on the production floor?' " He did.

So the real question is whether one man can be the best sausage maker in Kansas *and* build a billion-dollar business, both at the same time?

HARLAND STONECIPHER: LEGAL INSURANCE

Harland Stonecipher, founder and chairman of Pre-Paid Legal Services Inc. (#92), complained in a newsletter interview not long ago that the biggest barrier to his company's success was skepticism. "People always want proof that something new will work," he said.

Well, shouldn't they?

"A second barrier," he added, "has been a disbelief in anything originating in rural America. Rural Americans are intelligent, though, even if they are not given proper credit."

Who's picking on rural Americans? Bob Sauls and Larry Doskocil couldn't *be* any more country, and nobody sells more trailers or pizza toppings than they do. That kind of native business sense we could use more of. But, Mr. Stonecipher, look at this business you're in.

You're touting a supposedly professional product that nobody ever heard of. You push it with the same kind of multilevel marketing scheme that Amway and Herbalife International use to sell soap and funny diet plans. Your company devours cash. The biggest balance sheet asset is expenses you've already mostly incurred. The annual report reads like a revival meeting handbill, and the financial footnotes mention enough related party transactions to give Ivan Boesky gas. Furthermore, you're doing this in a place that calls itself Ada, America, and when this outfit shows up on the INC. 100, you don't think a little skepticism is in order? Hey, lighten up. Where is this Ada, America, anyway?

To paraphrase Harland Stonecipher, a man with a sense of humor, I hope . . . Ada, as even a city fool with a map could see for himself, is in horse country about two hours' drive southeast of Oklahoma City. Down here we serve up chicken-fried steak, iced tea, and lots of smiles.

Now, if you want to know, there're two reasons why we're on that list. We've got a product that meets a need, and we've got a sales force that delivers it. I know that doesn't sound very complicated, but that's what it is.

Back in '72 I had this idea to sell legal insurance. We've got lawyers everywhere, but only rich people and poor people get to use 'em. So I thought I'd sell this insurance to folks in the middle. That's about 80% of the population. It's not new. They've been doing it in Europe since the early part of the century. You pay us a monthly or annual premium (about $160 a year), and, just like medical insurance works with doctors, we pick up your lawyer's bills—whichever lawyer you want to use. We pay only for covered services, however, and only up to specified limits. But the policy does cover most of the common legal problems people run into—such as car-related issues and tax audits.

Well, I was going along slow but sure selling group policies, when in '83 my friend John Hail said, "Harland, did you ever consider multilevel marketing?" I told him that I was no Glenn Turner and I didn't want any part of it, but if he wanted to try on his own, he could go ahead. "Just don't mess up the business I have going." So he started his own little marketing company, and inside a year he had 13,000 people selling my policies to themselves and their friends. I saw pretty fast that that was the way to go. So we brought John's organization inside ours, and we just took off from there.

Multilevel marketing upsets some people, but in truth it's no different from any other sales force. Think about it. They're all multilevel. You've got salespeople and district managers and regional managers and sales managers and vice-presidents of sales. The only thing different about our organization is that nobody decides when

PRE-PAID LEGAL SERVICES INC.: SALES $40M; EARNINGS $2.3M; COMPOUND ANNUAL GROWTH 98%

Eventually the Prudentials of the world are going to figure out that we're onto something good, and when they do, we want to be there already.

you get promoted. The computer decides. It doesn't matter how you dress or whether the boss's wife likes you. The only thing that matters is how much you sell. You don't get money or promotions for bringing anybody into the organization, but you do get an override on anything they sell. The point is, nobody makes any money until a sale is made.

Now, we've got 155,000 associates selling policies for us and close to 500,000 members. We'd have more if we weren't doing business in just 22 states. Lots of times state insurance regulators don't know how to treat this product. It's the first time they've seen it, so expansion takes time.

About the annual report—you got something against enthusiasm? People need to be motivated, you know.

And the balance sheet—check it out. That's the way insurance companies always handle policy acquisition costs. You don't expense them; you amortize them to match the revenue flow. And we're conservative here. If we never sold another policy, we'd still recover our costs and a profit on the policies we've already sold.

Related party transactions? Sure, we reinsured some policies through company officers. They paid us cash for the future premium flow. It's just a financing device to help us raise cash, and nobody made any money on it.

However, you're right about devouring cash. First-year commissions on a policy come to 71% of the premium, which makes growth very expensive for us. I've spent 90% of my time looking for cash to keep this company growing. We could grow without it—just use our profits—but we've got to grow faster than that. Eventually the Prudentials of the world are going to figure out that we're onto something good, and when they do, we want to be there already. Montgomery Ward has already started selling a legal insurance product.

So you can be just as skeptical as you like about us, but not everybody is. Last night, for instance, I think we solved all our cash problems and some other problems, too. See this letter of intent? I. C. H. Corp., in Louisville, an insurance-holding company with about $8 billion in assets, is going to invest a bunch of money in us—about $10 million to start—in exchange for an option on some of our stock. I. C. H. chairman Bob Shaw spent three days here in Ada last week. "Harland," he said to me, "if you stayed at this 15 years, you must think it'll work."

So, what's that say about your skepticism?

IT TELLS ME THAT SKEPTICISM IS A healthy attitude when you don't know whether someone's on the level or not. I.C.H. checked Pre-Paid out with a lot of people before deciding to invest.

But later it occurred to me that Bob Shaw, whom I've never met, saw in three days what people who write about business—who look for the dramatic, the unique, and the sexy—sometimes don't see at all: that glitz and glamour and technical virtuosity aren't everything; that plain old perseverance, conviction, and tenacity still count for something in building a company. Those, I think, are the characteristics that connect these oddball businesses, and they're the answer, I guess, to our question: what in the world are these companies doing on the INC. 100? They earned their spots the hard way. ☐

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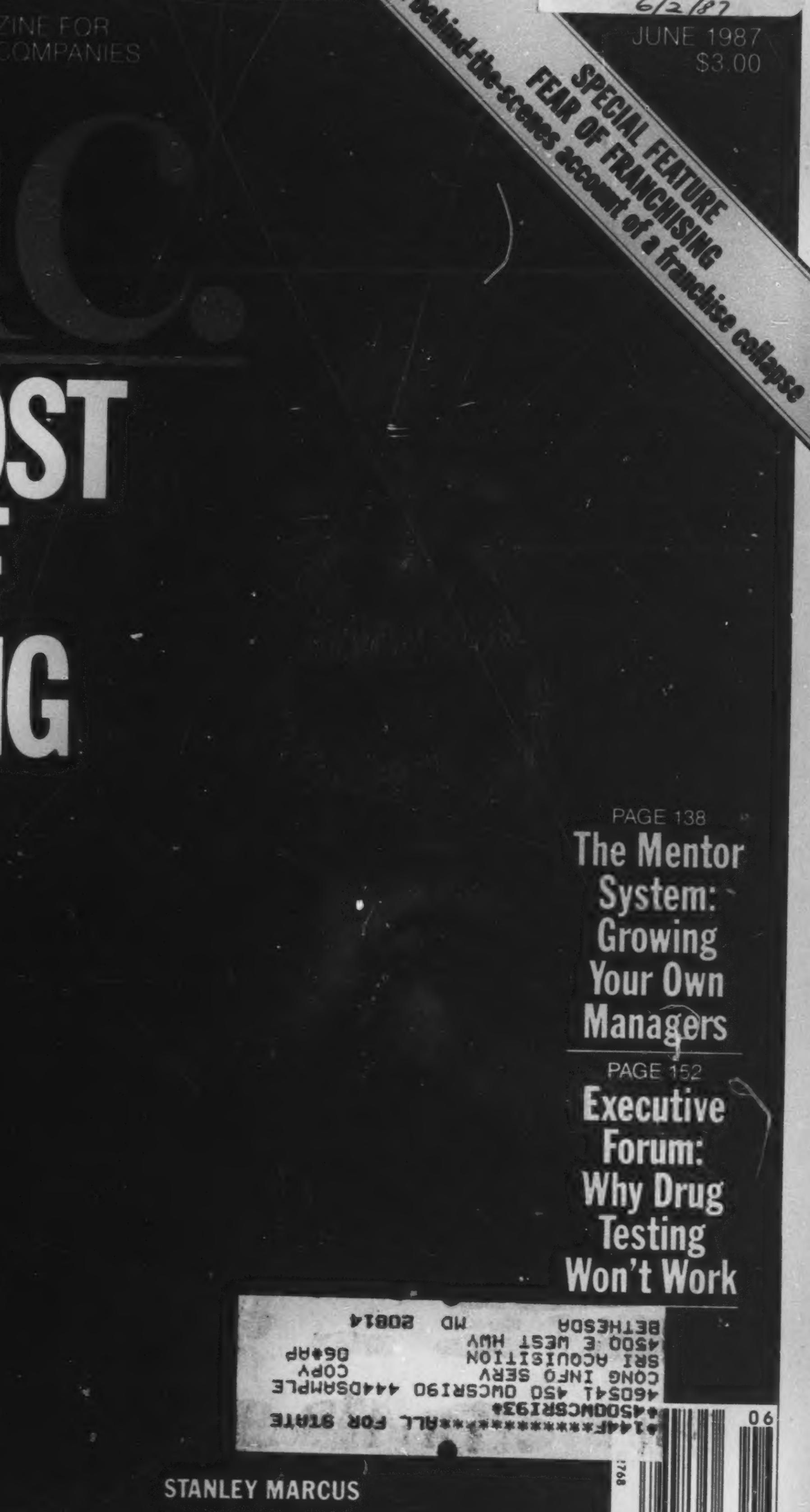

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THE CLASS OF '87
BREAKING AWAY

This year's crop of M.B.A.s has more in mind than investment banking and high-paying consulting jobs

BY BRUCE G. POSNER

MEET JULIE SPEAR MERRITT. SHE IS a bright, energetic young woman, a former triathlon competitor, from Houston. For six years, she worked as a geological engineer with Shell Oil Co., helping to select sites for drilling in the Gulf Coast region. Then, a couple of years ago, she quit. "There was more routine office work in the job than I wanted," Merritt says. "I was bored." This fall, she plans to start a new career, possibly working for a small furniture or real estate development company in North Carolina. She expects to make substantially less than she was earning at Shell, but that doesn't bother her. "I want to get up every morning and *like* what I do."

Julie Merritt is an M.B.A.

So, for that matter, is 23-year-old Shawn Hornsby, an equally bright and energetic young man from north central Illinois. As a child, he had always assumed that he would someday wind up running the chain of discount variety stores his grandfather had founded in 1922. But two and a half years ago, as Hornsby was completing his undergraduate work at Illinois Wesleyan University, his father decided to sell the company. Shawn went off to Indiana University's Graduate School of Business not knowing exactly what he would do when he got out.

Somewhere along the way, he developed the notion of starting his own business, perhaps a chain of fast-food restaurants. His idea was to locate them in small towns with populations of 10,000 or so, much like the towns where his grandfather had set up discount stores more than 60 years before. If all goes well, Hornsby will launch the venture this summer. And he has a partner—his father. "My father never went to college," he says. "He's learned by doing. But I think he's impressed with the stuff I've learned at business school. He thinks I'm different from the M.B.A.s he's read about."

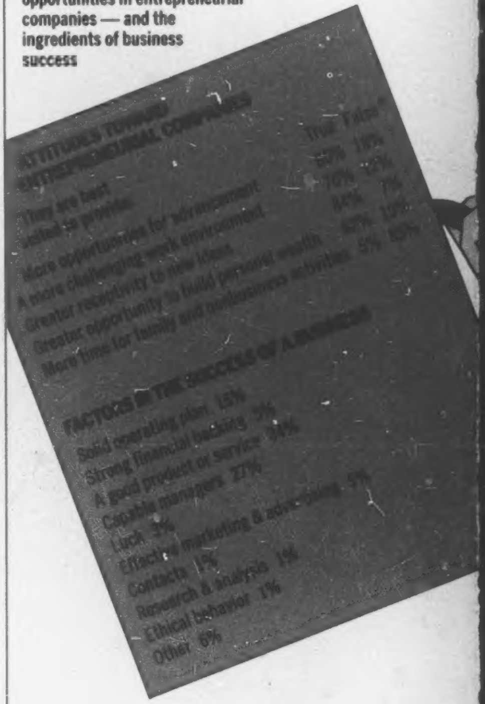
Julie Merritt and Shawn Hornsby are, indeed, different from the M.B.A.s we've all read about. They are not the smug, pinstriped, fast-track go-getters who have been blamed for everything from the fatal myopia of large corporations to the rampant corruption on Wall Street. They do not think that two years in a classroom has taught them all they need to know about running a company. Nor do they expect to conquer the world at any point in the near future, while being paid a six-figure starting salary for doing it. Rather, they are the type of bright, resourceful, roll-up-your-sleeves young people that most growing companies would be happy to have as employees, or customers, or suppliers. The question is: are they typical of their classmates or the exceptions that prove the rule?

That's an important question, if only because of the sheer number of M.B.A.s being unleashed on America these days. This June, the nation's business schools will graduate the largest class in history, more than 70,000 new masters of business administration. To put this figure in perspective, consider that the class of '87 is almost as large as the total number of M.B.A.s produced during the entire decade of the 1960s. We're talking about a thirteenfold increase in business-school enrollment

THE CLASS OF '87: AT A GLANCE

WHAT M.B.A.s THINK ABOUT YOU

How the current class views the opportunities in entrepreneurial companies — and the ingredients of business success



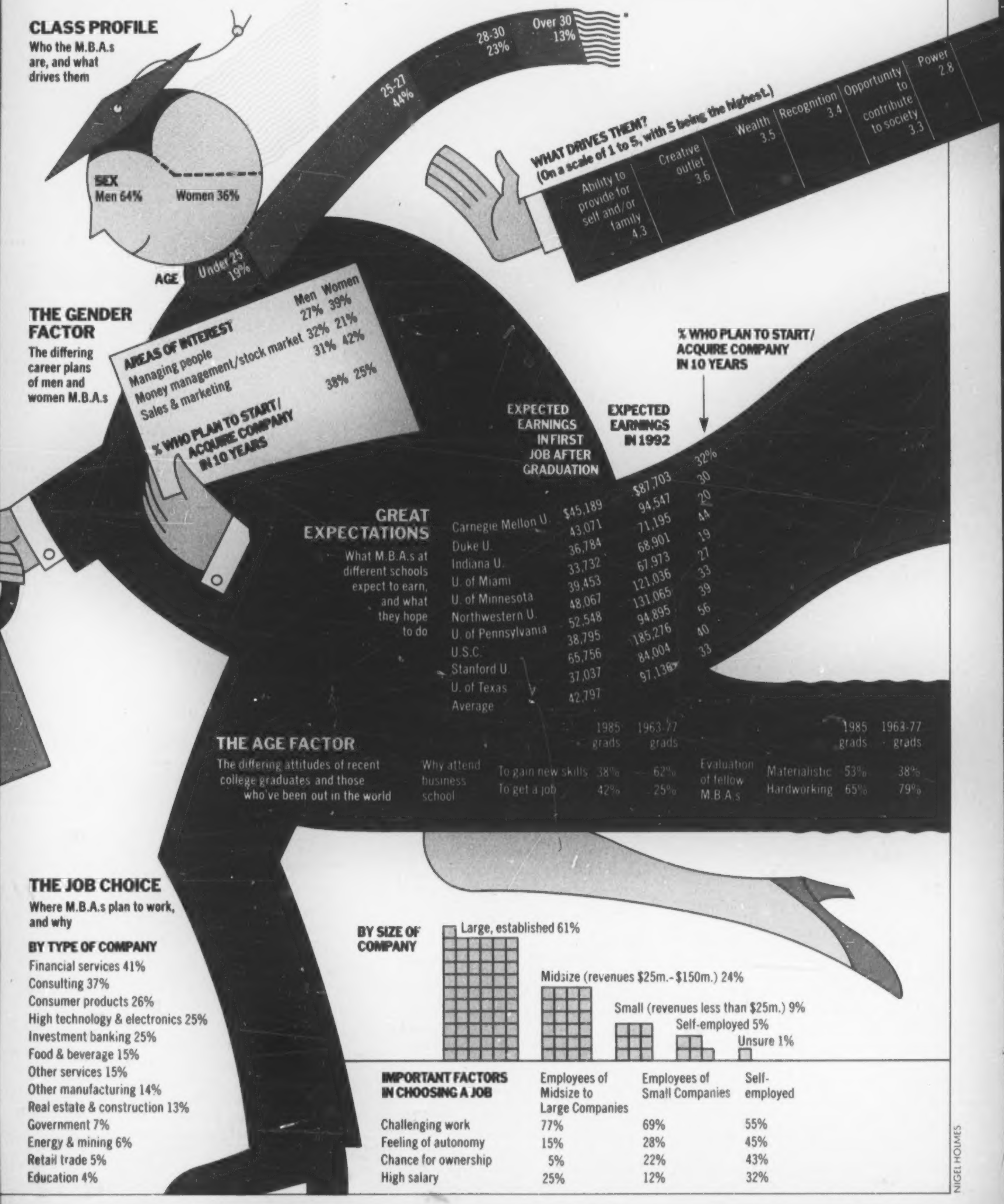
ATTITUDES TOWARD ENTREPRENEURIAL COMPANIES

They are best suited to provide:	True	False*
More opportunities for advancement	60%	19%
A more challenging work environment	70%	12%
Greater receptivity to new ideas	84%	7%
Greater opportunity to build personal wealth	62%	19%
More time for family and nonbusiness activities	5%	85%

FACTORS IN THE SUCCESS OF A BUSINESS

Solid operating plan	15%
Strong financial backing	5%
A good product or service	34%
Capable managers	27%
Luck	3%
Effective marketing & advertising	5%
Contacts	1%
Research & analysis	1%
Ethical behavior	1%
Other	6%

*Where there was no response or no opinion was given, the figures are omitted.



CLASS PROFILE

Who the M.B.A.s are, and what drives them

SEX

Men 64%

Women 36%

AGE

Under 25 19%

25-27 44%

28-30 23%

Over 30 13%

WHAT DRIVES THEM?
(On a scale of 1 to 5, with 5 being the highest.)

Ability to provide for self and/or family	Creative outlet	Wealth	Recognition	Opportunity to contribute to society	Power
4.3	3.6	3.5	3.4	3.3	2.8

THE GENDER FACTOR

The differing career plans of men and women M.B.A.s

AREAS OF INTEREST	Men	Women
Managing people	27%	39%
Money management/stock market	32%	21%
Sales & marketing	31%	42%
% WHO PLAN TO START/ ACQUIRE COMPANY IN 10 YEARS	38%	25%

GREAT EXPECTATIONS

What M.B.A.s at different schools expect to earn, and what they hope to do

	EXPECTED EARNINGS IN FIRST JOB AFTER GRADUATION	EXPECTED EARNINGS IN 1992	% WHO PLAN TO START/ ACQUIRE COMPANY IN 10 YEARS
Carnegie Mellon U.	$45,189	$87,703	32%
Duke U.	43,071	94,547	30
Indiana U.	36,784	71,195	20
U. of Miami	33,732	68,901	44
U. of Minnesota	39,453	67,973	19
Northwestern U.	48,067	121,036	27
U. of Pennsylvania	52,548	131,065	33
U.S.C.	38,795	94,895	39
Stanford U.	65,756	185,276	56
U. of Texas	37,037	84,004	40
Average	42,797	97,136	33

THE AGE FACTOR

The differing attitudes of recent college graduates and those who've been out in the world

Why attend business school	1985 grads	1963-77 grads
To gain new skills	38%	62%
To get a job	42%	25%

Evaluation of fellow M.B.A.s	1985 grads	1963-77 grads
Materialistic	53%	38%
Hardworking	65%	79%

THE JOB CHOICE

Where M.B.A.s plan to work, and why

BY TYPE OF COMPANY

Financial services 41%
Consulting 37%
Consumer products 26%
High technology & electronics 25%
Investment banking 25%
Food & beverage 15%
Other services 15%
Other manufacturing 14%
Real estate & construction 13%
Government 7%
Energy & mining 6%
Retail trade 5%
Education 4%

BY SIZE OF COMPANY

Large, established 61%
Midsize (revenues $25m.-$150m.) 24%
Small (revenues less than $25m.) 9%
Self-employed 5%
Unsure 1%

IMPORTANT FACTORS IN CHOOSING A JOB	Employees of Midsize to Large Companies	Employees of Small Companies	Self-employed
Challenging work	77%	69%	55%
Feeling of autonomy	15%	28%	45%
Chance for ownership	5%	22%	43%
High salary	25%	12%	32%

NIGEL HOLMES

ZIGY KALUZNY

JULIE SPEAR MERRITT

Age: 30

Hometown: Houston

Undergraduate Degree: Southern Methodist University

Business School: Graduate School of Business, University of Texas at Austin

Last Job: Geological engineer for Shell Oil Co.

Immediate Plans: To move to North Carolina with her husband and find a job with a furniture maker or a real estate developer

Long-term Goal: To have her own company that markets architecture-related products

Greatest Achievement: Placing among the top 20 women in the Heart of Dixie Triathlon in 1982

Business Hero: H. Ross Perot

Quote: "I would love to be part of something that's successful and to help it become even more successful."

over the past 25 years, a 50% increase over the past 10. More people are now graduating from business school each year than from medical school and law school combined.

The trend, moreover, shows no signs of abating. On the contrary, it has become institutionalized. The number of master's degree business programs has increased 67%, from 389 to 650, since 1974, when somebody first began to keep track of such things. Back in 1962, Harvard University alone accounted for some 12% of the country's annual crop of M.B.A.s. Today, the figure is 1.1% and falling. Meanwhile, more young people decide each year to turn their attention to business, and to get there by way of an M.B.A. degree.

Who are they? Why did they go to business school? Where are they headed, and where do they hope to end up? What do they want from the companies they work for, and what do they expect to find? And how have they been shaped by the events of their times? This is, after all, a generation that grew up after Vietnam and after Watergate. Most of them entered college at about the same time Ronald Reagan became President; now they are graduating from business school as he prepares to step down. By and large, they have no memory of an era when large U.S. corporations seemed invincible to foreign or domestic challenge. Rather, they have seen the decline of one major American industry after another; the rise of the entrepreneur; and, more recently, the scandals on Wall Street. How have these graduates been affected by all this, and what impact are they themselves likely to have on the American economy in years to come?

With such questions in mind, we set out to survey a cross section of the M.B.A. class of '87, as represented by the graduating students at 10 respected business schools around the country. (See box, "How the Survey Was Conducted," page 62.) We asked them questions on subjects ranging from their family backgrounds to their career plans to their attitudes toward business in general and small companies in particular. In all, we distributed 1,500 questionnaires (150 per school) and received 907 replies.

The results provide a portrait of an M.B.A. class that is not only larger than those of 10 or 20 years ago, but different. For one thing, it is much more heterogenous, in part because it includes people who probably would not have gone to business school in the past—people such as Glenda Johnson, a 27-year-old black woman from Miami.

Nine years ago, Johnson was finishing up high school and planning to enroll at Cornell University as a premed student. Then she heard a recruitment speech by Sybil C. Mobley, the dynamic dean of Florida A & M University's business school, who inspired her to switch colleges and careers. This month, she is receiving her M.B.A. from the University of Pennsylvania's Wharton School of Business and heading off for a job as a financial analyst with Burger King Corp., in preparation for owning her own company. "Business is where the best opportunities are," she says. "I think I'll be able to benefit other people as much by being in business as I could have in medicine."

Not that Johnson is typical of the class of '87. Like previous classes, it is predominantly white (81%), male (64%), and young: two-thirds of its members are 24 to 28 years of age. As for the future, the majority (61%) plan to go to work for large corporations (defined as companies with sales greater than $150 million) with another 24% headed for midsize companies (with sales between $25 million and $150 million). Their occupations of choice are still financial services (41%) and consulting (37%), and their salary expectations are still high. On average, the M.B.A.s we polled figure they'll make close to $43,000 in the first year out of business school; five years down the line, they plan to be earning more than $97,000 a year.

But if all this suggests that many of this year's M.B.A.s *do* fit the popular stereotype, it also tends to hide the large number who don't.

Consider, for example, Steve Prelosky, a 30-year-old engineer at Carnegie Mellon University's Graduate School of Industrial Administration. Unlike most of his classmates, Prelosky already has a lot of big-company experience. After graduating from Pennsylvania State University in 1979 with a degree in mechanical engineering, he spent six years working for General Electric Co. There he did a variety of jobs, at one point even traveling to the Middle East to sell parts for gas turbine engines. The longer he worked, however, the more convinced he became that his future lay outside a large company. As markets matured, he saw his opportunities for advancement dry up, and—with them—the promise of job

RICK DIERINGER

SHAWN HORNSBY

Age: 23

Hometown: Morris, Ill.

Undergraduate Degree: Illinois Wesleyan University

Business School: Graduate School of Business, Indiana University

Immediate Plans: To start a fast-food business with his father

Long-term Goal: To build a regional or national company

Favorite Book: *Going For It!* by Victor Kiam

Quote: "There's a kind of recognition and pride you get when you own a company. I got a glimpse of that watching my dad when I was growing up. At a big company, you're a very small part of what's going on."

MARK BOLSTER

STEVE PRELOSKY

Age: 30

Hometown: Pittsburgh

Undergraduate Degree: Pennsylvania State University

Business School: Graduate School of Industrial Administration, Carnegie Mellon University

Last Job: Salesman for General Electric Co.

Immediate Plans: To be a financial planner for a small chemical company

Long-term Goal: To own the company

Greatest Achievement: Managing sales of a GE product in the Middle East

Business Hero: Frederick W. Smith of Federal Express Corp.

Quote: "I've seen the way big companies work. They can provide you with a really nice job, but there's no guarantee it will lead anywhere."

security. Finally, he decided to quit and go to business school. "With my wife working and no kids, I felt it was a good time to take a risk," he says.

Last winter, in the midst of his second year, Prelosky got wind of a part-time job with a young Pittsburgh-based company, a $5-million business that produces carbon dioxide for industrial uses. The founder, a friend of his family, was thinking about adding capacity and asked Prelosky to crunch some numbers. "I analyzed the profit-and-loss margins under several different scenarios, things I didn't even know how to do before going to business school." His findings convinced the company to proceed with the expansion—and to offer Prelosky a full-time position on its finance staff.

In the new job, Prelosky expects to have many new opportunities and challenges. "Besides working on the financial end of the business, I plan to have some input into marketing and to bring in some business," he says. His salary is $4,000 or $5,000 less than the $40,000 he was making at GE, but now he has 10% of the equity of a growing company. "My goal is to help this company grow and to make to sure that we stay lean, because that's our advantage."

Prelosky is not alone in deciding to cast his lot with a smaller company. Of the graduating M.B.A.s we polled, 9% said that they plan to seek employment in companies with sales of $25 million or less. That may not sound like many—until you consider that, extrapolated, it represents more people than the entire M.B.A. class of 1962.

Unfortunately, those who do want to work for smaller companies face a vexing problem: finding jobs. While the major corporations, investment banks, and consulting firms make annual pilgrimages to business schools, smaller companies tend to stay away. "Not many of them are big on recruitment," says Lee A. Junkans, director of career services and placement at Duke University's Fuqua School of Business. "So it's up to the student to locate these companies."

That is often a major undertaking. Kay Branz, for example, has been spending hour upon hour reading the classified ads and searching for information about small businesses in the Chicago area, while she finishes up her degree from Northwestern University's J. L. Kellogg Graduate School of Management. "The opportunities aren't staring you in the face," she says. "You have to get out and shake the bushes." In early April, most of her classmates were responding to job offers from large companies. Branz, however, had yet to latch on to anything.

Nor, for that matter, had Steven Szafara, a Philadelphia native who is getting his M.B.A. from Wharton. Szafara, 27, was looking for a marketing or staff job with a small manufacturing business, preferably in the Philadelphia area. "I enjoy creating things," he says. "It's part of my personality." He passed the word to everyone he knew, even some headhunters. "You name it," says Szafara, "and I was doing it." Finally, late in April, he landed a consulting position with an accounting firm—long after most of his classmates had lined up their postgraduation jobs.

There are, of course, some lucky ones who don't have to look far for a small company in need of their services. Carol Sabransky, for one, is thinking about heading back to the chain of pharmacies her father owns. That's not what she had in mind when she enrolled in Indiana University's M.B.A. program in January 1986. After managing one of the pharmacies, on the north side of Chicago, she had decided, at the age of 32, that it was time to move on to bigger things. She thought of becoming a lending officer at a bank, or a brand manager with a large consumer products company. But the more she learned about those options, the more attractive the family business became. The grass, she concluded, is greener on her own side of the fence.

Sabransky is well aware that competition in the retail drug market is getting more and more cutthroat. "These days, it's an accomplishment just to stay alive." But her business-school training has opened her eyes to possibilities she didn't see before. "I'd want to do a lot more market research, but I think there's a way we could expand our business by emphasizing service. And besides," she adds, "I really think I'd get lost in a big company. I need to see the difference I make."

The same goes for Patricia Sheehy, whose father owns several car dealerships in the Northeast. Although she finally accepted a position as a commercial lender in a bank, the 26-year-old M.B.A. from Duke was greatly tempted to return to the family business. "Where else would I have an opportunity to learn about the whole business?" she asks seriously, then laughs. "That's something my father likes to kid me about. He thinks it's funny that M.B.A.s

STEVEN FALK

GLENDA JOHNSON

Age: 27

Hometown: Miami

Undergraduate Degree: Florida A & M University

Business School: The Wharton School of Business, University of Pennsylvania

Last Job: Financial analyst for Pepsi-Cola U.S.A.

Immediate Plans: To work in the financial department of Burger King Corp.

Long-term Goal: To achieve financial independence and have her own business

Business Hero: Sybil C. Mobley, Dean of Florida A & M University's School of Business and Industry

Quote: "I don't care what *Fortune* says. The smartest M.B.A.s aren't going to Wall Street. They're going into manufacturing, or they're starting companies."

LEON CORRY

LINDA STECKLEY

Age: 45

Hometown: West Chester, Pa.

Undergraduate Degree: Dickinson College

Business School: School of Business Administration, University of Miami

Current Job: Development director for the business school

Immediate Plans: To finish a fund-raising campaign for the university and then go into own executive search business

Long-term Goal: To build a quality service reputation that extends beyond Florida

Greatest Achievement: Helping the business school establish links to the Miami business community

Business Hero: Feminist Gloria Steinem

Quote: "Coming out of college in 1963, my options were to become either a teacher or a nurse. Now, with my M.B.A., I feel the opportunities are unlimited."

are always talking about finding 'challenging opportunities.' In his day, people looked for jobs."

Sheehy's father is right. The search for "challenging opportunities" is an almost monotonous refrain among this year's graduating M.B.A.s. Overall, they ranked "challenging work" and "company atmosphere" above everything else, even "high salary," as leading considerations in choosing their next job. The large majority, moreover, believe that entrepreneurial companies are best suited to provide those things. According to 65% of the respondents, such companies offer the best opportunities for advancement; 76% said they have a more challenging work environment; 84% said they are more receptive to new ideas; and 62% said they provide greater opportunity to build personal wealth. The one thing entrepreneurial companies do not offer, according to 85% of those polled, is "more time for family and nonbusiness activities." But, then, this year's M.B.A.s tend toward workaholism: on average, they plan to spend 56 hours a week on their new jobs.

So, given these plans and beliefs, why aren't more of them looking for positions in small, entrepreneurial companies? Perhaps because many of them intend to start their own. Fully one-third of the respondents say that they will start or acquire their own businesses within 10 years. Another 41% say that they might. Only 25% dismiss the possibility.

That represents a significant change in the attitude of business-school graduates. Granted, previous generations of M.B.A.s have founded a lot of companies over the years, but it was seldom something they planned on doing when they left business school. Rather, they generally headed off for jobs in large companies with every intention of staying there. Only when career options narrowed at the top did they decide to set out on their own.

Not so the current generation of M.B.A.s. Some of them already have their business plans written and are out looking for capital. Heather Wictum, for one, is in the midst of launching a new toy company, even as she prepares for her graduation from the University of Southern California's School of Business Administration. The company will specialize in what she calls "children's play environments." Its first product, a kit of plastic construction materials, will be aimed at families with little space in a backyard. She hopes to have prototypes ready by July. In the meantime, she is approaching investors for $50,000 in start-up financing.

Wictum, 30, is no novice when it comes to starting businesses. A textile-design major in college, she financed her undergraduate education by designing and selling shirts to a highly specialized market segment: bagpipers. Subsequently, she spent two years managing subcontractors for a San Francisco apparel company. That experience should come in handy in her new venture: in order to keep a lid on overhead, she plans to farm out the manufacturing. "We'll do our own light assembly work and packaging," she says, "and we'll focus on future products."

Peter Francis, a 34-year-old M.B.A. from Stanford University, is taking a different approach. He plans to spend the next few months looking for a small machine shop in the Seattle area, with the notion of purchasing it through some form of leveraged buyout. But that's just for openers. A trained machinist, he eventually hopes to branch out into computer-integrated manufacturing, which he considers a potentially enormous market. "I'll be applying automation to my own company," says Francis, whose father manufactures oceanographic equipment in Massachusetts. "And I hope to become good enough to sell this expertise to others."

Then there are those, such as Linda Steckley, who intend to start service businesses. Steckley, 45, is getting her M.B.A. from the University of Miami, where she has worked for several years as a fund-raiser. Along the way, she acquired great contacts. "But I didn't have the quantitative skills," she says, "and I didn't have the confidence." Now she plans to go into the executive search business, either on her own or as a partner in an existing firm. "Before I did my M.B.A., there was no way I would have started a business."

People such as Wictum, Francis, and Steckley are a distinct minority, however, accounting for only about 5% of the graduating M.B.A.s we polled. More typical are those who intend to get some additional experience and seasoning before setting off on their own. Of the M.B.A.s headed for large companies, 25% say that they will

JAMIE TANAKA

PETER FRANCIS

Age: 34

Hometown: Marion, Mass.

Undergraduate Degree: Middlebury College

Business School: Graduate School of Business, Stanford University

Last Job: Designer and engineer for Horizon Marine, a manufacturer of oceanographic instrumentation

Immediate Plans: To buy a manufacturing company in Seattle

Long-term Goal: To become a leader in computer-integrated manufacturing

Greatest Achievement: Sailing around the world in five and a half years

Extracurricular Activity: President of Stanford's Manufacturing Club

Quote: "My aim is to apply automation at my own company and become good enough to sell the technology to other companies."

have their own businesses within a decade. Many, of course, are reluctant to discuss those plans, for fear of antagonizing their next employers. But there are some who talk quite freely about their goals.

Jock Donaldson, for example, is a 30-year-old M.B.A. from the University of Minnesota's Curtis L. Carlson School of Management who has spent the past five years working for a heavy-duty automotive-parts manufacturer started by his grandfather. The company, with annual revenues of $260 million, is now publicly owned and run by professional managers. Donaldson feels that his business-school training has improved his chances for advancement in the company, but he doesn't intend to stay there long. Within the next three to five years, he hopes to buy or become a partner in a small manufacturing or distribution business. "I'd like to see an actual product," he says. "And I'd want it to be an industrial product, as opposed to a consumer one. The consumer is just too fickle for me."

EDWARDO ALFANO

HEATHER WICTUM

Age: 30

Hometown: San Pablo, Calif.

Undergraduate Degree: Immaculate Heart College, Los Angeles

Business School: Graduate School of Business Administration, University of Southern California

Last Job: Quality-control supervisor for Byer of California, an apparel manufacturer

Immediate Plans: To start a toy company

Long-term Goal: To have several successful start-ups

Greatest Achievement: Paying for her undergraduate education by making shirts for bagpipers

Business Hero: Apple Computer Inc. former CEO and chairman A. C. "Mike" Markkula

Quote: "I intend to build a company that's so big in five years that I won't want to be there."

David Lowenstein, a Duke M.B.A., also plans to acquire some big-company experience before going into his own company. The company he expects to go into, however, is his family's electrical supply business. "Business school taught me how to ask tough questions," says Lowenstein, 24. "But I need some really good experience in sales and marketing." For that reason, he has taken a training position in sales and marketing at General Foods Corp. "My father thinks it's a great company," he says. "And I think it will be a terrific place to learn."

To be sure, most of the would-be entrepreneurs in the class of '87 do not have family businesses to come back to after they've acquired the requisite experience elsewhere. Instead, they plan to start their own. After graduation from Duke's Fuqua School, for example, 25-year-old Steve Layne will "pay his dues" at D'Arcy Masius Benton & Bowles, one of Madison Avenue's premier advertising agencies, where he is taking a job as an assistant account executive. "I hope to absorb as much as I can about how the industry works," he says. "But I can't see myself working for someone else for the rest of my life." He eventually hopes to set up a marketing consulting firm geared toward smaller companies.

Lisa Nelson, an M.B.A. candidate at the University of Texas at Austin, has similar plans. She wants to work for a few years as a commercial loan officer in a bank before starting her own consulting business for minority entrepreneurs. Nelson, who is black, says she got the idea while studying economics at Michigan State University. "I was talking to a couple of friends, one in accounting, the other in finance. We all felt that minorities were missing out because so many of them didn't know how to put the pieces of a business together or refine their ideas." At Texas, she pitched the consulting concept to her roommates, both marketing majors, who were interested. "We plan to stay in touch over the next few years," Nelson says.

This is not to suggest that the M.B.A. class of '87 is teeming with future entrepreneurs. Let's face it: those who say they'll start or acquire their own companies may never get around to it. Those who think they just might do it may decide not to. And those who plan to stay in large companies probably will.

But even among the latter there are signs that attitudes are changing in ways that could affect the small-business sector in years to come. Consider Chris Hastings, a Wharton M.B.A. who intends to pursue a career at a major bank. He has no intention of leaving to start his own business—but the idea of lending to large corporations leaves him cold. "A big company like Exxon has plenty of options," he says. "They might get 30 different proposals and, 9 times out of 10, they'll make their decision based on price." Hastings thinks he would get more "psychic satisfaction" lending to smaller businesses, which tend to have fewer options. "It's a lot more exciting," he says, "because they really need you."

JOHN DeMARCO

JOCK DONALDSON

Age: 30

Hometown: Minneapolis

Undergraduate Degree: Colgate University

Business School: Curtis L. Carlson School of Management, University of Minnesota

Current Job: Internal auditor for Donaldson Co., an automotive-parts maker founded by his grandfather

Immediate Plans: To return to that company as marketing manager

Long-term Goal: To have his own manufacturing business

Greatest Achievement: Finishing M.B.A. while holding a full-time job

Business Hero: "My dad, Frank Donaldson"

Quote: "A lot of people think manufacturing is boring, but that's where the wealth comes from. I like being involved with a product you can actually see."

So what are we to make of all this? What clues does it give us about the future? After all, the current crop of business-school graduates is bound to influence our world in one way or another, if only by dint of numbers, and there are more M.B.A.s graduating every year. Among them are thousands of prospective employees, managers, partners, suppliers, customers, competitors, bankers, even bosses. And in 20 or 30 years, they will fill the top ranks of U.S. business. How will they lead? What impact will they have?

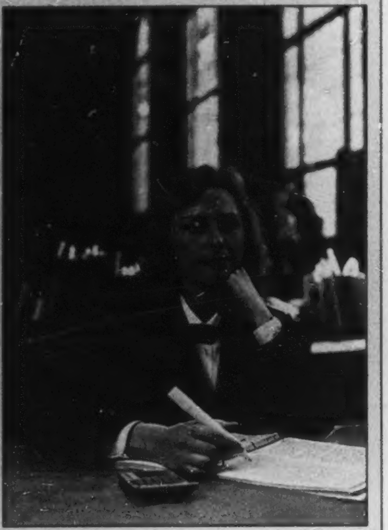
Thirty-eight years ago, *Fortune* asked similar questions about another group of college students, those who were receiving their undergraduate degrees in June 1949. It was a huge class by the standards of the day, including 150,000 men, 70% of whom were veterans. They had grown up during the Depression, gone to war, and come home to build families and careers. Most of them were going directly into business after graduation. (That was before the era of the M.B.A.) Searching for clues about the impact these seniors would have, *Fortune* conducted a survey. Its conclusions are chilling in the accuracy with which they foreshadow the history of corporate America over the next 30 years.

"Looking to big business for security, a cautious generation turns its back on venture," the article's subtitle began. The author, Holly Whyte, went on to explain: "Security, of course, can mean many things. In [the class of] '49's case it is bound up in people. Spiritually, it means working *for* people, in the sense of service, of justifying one's place in the community. Materially, it is, simply, working *under* them. The class of '49 wants to work for somebody else—preferably somebody big. No longer is small business the promised land. As for the idea of going into business for oneself, the idea is so seldom expressed as to seem an anachronism. 'I never saw a bunch that so wanted to make this free-enterprise system work,' says a professor of business administration, 'but they are interested in the system rather than the individual enterprise. They will be technicians—not owners.' "

Such attitudes were certainly understandable, given the experiences of that generation, and—at the time—they offered the hope of an economy that would function more smoothly than ever before, Whyte wrote. "If ever there was one, this will be a generation of managers. . . . Competence, certainly, '49 will supply in abundant measure, and never has there been a class so absorbed with the techniques—and the desirability—of making business more efficient."

And yet Whyte also expressed a gnawing concern about the class of '49. "Will this community-conscious group furnish any quota of free-swinging s.o.b.'s we seem to need for leavening the economy? Or will it be so intent on achieving a super-lubricated, integrated private enterprise—a sort of socialization by big business instead of government—that it will prefer a static, and thus more manageable, economy to a dynamic one? Will '49s, in short, be so tractable and harmonious as to be incapable, twenty or thirty years hence, of making provocative decisions?"

The answer can be found in the record of the *Fortune* 500 during the 1970s and early '80s. From that perspective, the class of '87 seems to offer us hope that, after nearly four decades, the pendulum has at last begun to swing back. ☐


ANDY GOODWIN

KAY BRANZ

Age: 35

Hometown: Chicago

Undergraduate Degree: Smith College

Business School: J. L. Kellogg Graduate School of Management, Northwestern University

Last Job: Administering a continuing education program for the Society of Actuaries

Immediate Plans: To work for a small operating or consulting business

Long-term Goal: To influence the direction of a company and have an impact on the world

Greatest Achievement: Raising a family while attending business school

Quote: "I went to college in the early '70s, and I still feel I have a responsibility to make things better."

DUANE SALSTRAND

STEVE LAYNE

Age: 25

Hometown: None—"My dad was in the Air Force."

Undergraduate Degree: Eckerd College

Business School: The Fuqua School of Business, Duke University

Immediate Plans: To work for D'Arcy Masius Benton & Bowles in New York City

Long-term Goal: To have his own advertising or marketing business

Greatest Achievement: Financing his way through undergraduate and graduate school

Quote: "I've always been a creative person, but business school has helped me structure the way I approach problems. It's given me a new set of tools."

HOW THE SURVEY WAS CONDUCTED

Early this year, we set out to survey members of the M.B.A. class of '87 with the goal of gaining some insight into who they are, what they believe, and where they are going. Toward that end, we compiled a five-page questionnaire, which we delivered in late February to 1,500 second-year M.B.A. students at 10 business schools around the country. The schools were: Carnegie Mellon University's Graduate School of Industrial Administration; Duke University's Fuqua School of Business; Indiana University's Graduate School of Business; Northwestern University's J. L. Kellogg Graduate School of Management; Stanford University's Graduate School of Business; the University of Miami's School of Business Administration; the University of Minnesota's Curtis L. Carlson School of Management; the University of Pennsylvania's Wharton School of Business; the University of Southern California's Graduate School of Business Administration; and the University of Texas at Austin's Graduate School of Business.

The schools were chosen with an eye toward obtaining as broad a cross section of the class as possible in terms of geography, type of program, and student background. At each school, we provided questionnaires to 150 randomly selected students. Of the 1,500 questionnaires distributed, 907 were completed and returned, for a response rate of 60%. Survey results were compiled by Data Tabulation Services Inc., in Stoneham, Mass. INC. special projects editor Sara Baer-Sinnott coordinated the entire process. Research assistance was provided by Teri Lammers.

A complete report of the survey results, covering all subjects included in the questionnaire, is available for $65. To obtain a copy, please contact special reports manager John Titus at (800) 372-0018.

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Built by the People Who Build Businesses: Page 62

MARKETING TO THE NEW AMERICA

What Smart Companies Are Doing Now to Capture the Majority Markets of the Future

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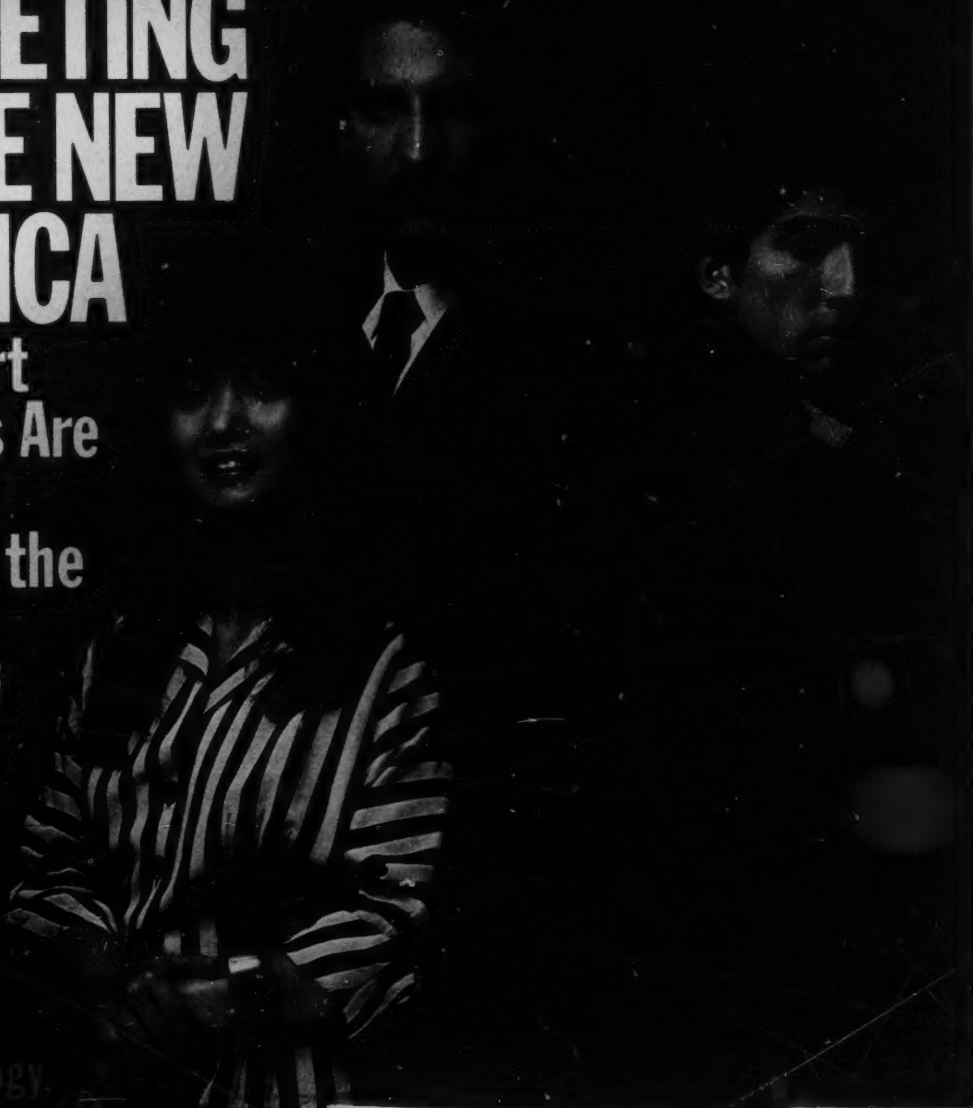

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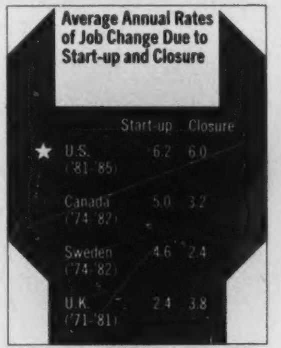

Average Annual Rates of Job Change Due to Start-up and Closure

	Start-up	Closure
★ U.S. ('81-'85)	6.2	6.0
Canada ('74-'82)	5.0	3.2
Sweden ('74-'82)	4.6	2.4
U.K. ('71-'81)	2.4	3.8

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E. J. Camp

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YANKEE DOODLE DANDY

Entrepreneurship and innovation make our business culture worth celebrating. But they pose challenges, too

BY DAVID L. BIRCH

Who can doubt that on this Fourth of July, as on most in recent years, we'll again see the Age of the Entrepreneur turned into a symbol. Politicians in particular are fond of this. The spirit of enterprise will be said to reflect everything from freedom, courage, and the work ethic to most of the attributes in the Boy Scout Law—to represent, in short, America at its unique and rambunctious best.

But when all the flag-waving and fireworks are over, a question remains: are we really so special? Is our business culture different? Or are all nations gravitating toward the same way of economic life, the same patterns of creation and demise for companies and jobs?

This time, it turns out, the politicians are right. The facts show that we *are* different. Compare U.S. business patterns with the histories of millions of individual businesses in Canada, the United Kingdom, and Sweden over the past 10 or 15 years. The United States is yeastier. There is more bubbling here—more activity, more people starting companies, more young businesses growing.

Americans are two and a half times as likely to create jobs by starting a company as are our allies in the United Kingdom (see figure 1). We are also far more likely to wipe out jobs by closing companies down. The lives of our businesses are far more turbulent.

1

Average Annual Rates of Job Change Due to Start-up and Closure

	Start-up	Closure
★ U.S. ('81-'85)	6.2	6.0
Canada ('74-'82)	5.0	3.2
Sweden ('74-'82)	4.6	2.4
U.K. ('71-'81)	2.4	3.8

Whether for good or ill, business here is more turbulent than elsewhere.

CHARTS: NIGEL HOLMES

Our new jobs are more likely to come from innovative young companies that grow. Figure 2 reveals the stark contrast between the United States and Sweden. We depend heavily on smaller businesses for job creation, and Sweden relies almost solely on larger ones. Canada's experience lies in between.

Turbulence itself is not, of course, desirable. We pay a heavy price for ours—plants close and people are forced to move their homes and change their employers. What do we get for it? Jobs. Between 1974 and 1984, for example, Americans created 18 million jobs while, during the same period, the Common Market nations lost 3 million. In Europe, as here, this was a time when baby boomers—some 4 million of them—flooded the labor market, with staggering unemployment the result.

Even by their own measurement systems, European unemployment rates are unsettling: Belgium 13%, France 10%, the Netherlands 15%, Italy 13%, Spain 19%, and the United Kingdom 13%. These figures, though, mask massive social welfare programs that we do not support, and that absorb people from the ranks of the unemployed. True unemployment (as we would measure it) in the Netherlands, for example, is much closer to 25%. In Belgium, I have been told, it has approached 30%. We fret, as well we should, about a high youth unemployment rate of 13%. In the United Kingdom it was 22%, in France 25%, in Spain 44%.

Why do we start so many more companies? Why are smaller ones more likely to grow and create jobs here? Any explanation begins by noting how differently the playing fields (to use the current idiom) are laid out. The Europeans fund their social programs with high marginal tax rates. Regulations abound. There are endless rules governing a business's right to close facilities, relocate operations, lay people off, or reduce wages. The result is poor growth.

So why, an American might ask, can't the Europeans see the advantages of a more open, freewheeling system like ours and change the rules? The answer is not that they can't do so, but that they don't want to. They share a value system fundamentally different from ours—one that has deep feudal roots and that favors social protection and minimum living standards over allover aggressive growth and the possibility of inequality. They view our poor and ill-housed and badly cared for as an unacceptable systemic weakness, and more than ample reason for rejecting our approach.

2

Private-Sector Net Employment Change by Size of Enterprise

Enterprise size	★ U.S. ('77-'85)	Canada ('74-'82)	Sweden ('74-'82)
1-19	67%	55%	15%
20-99	22	9	-6
100-499	-3	-3	-10
500 +	14	39	101

In America, and to a lesser extent in Canada, it's the small innovative companies that grow jobs.

We revere the entrepreneur in this country. No matter how bad those speeches are on the Fourth of July, for us the entrepreneur really *is* a symbol of innovation, imagination, freedom, and courage. Europeans, though, view entrepreneurship as a practice of the lower classes. It is not an accident that only 1.7% of the graduates from Dutch universities go to work for a small or midsize company—it is simply "not appropriate" for them to do so. Whatever the differences, a characteristic we share with the Europeans is a high level of innovation and inventiveness. Of all Nobel Prizes awarded in science and medicine since 1950, for example, the United States accounts for 53%, Europe 39%, and the rest of the world only 8%. We are alone, however, in that we dream things up *and* we do a good job of bringing them to market. On the following page, figure 3 summarizes our uniqueness when degree of entrepreneurship and sources of innovation are considered jointly.

What about the rest of the world? We now function in a world economy that makes physical proximity to Europe largely irrelevant. We are concerned as much

The day finally comes when he doesn't even know the way home.

Alzheimer's Disease is a progressive illness that steals your memory, your mind, your self-awareness and eventually, your life. It's a tragic *long goodbye* for 1 out of 3 American families. It's the 4th leading cause of death among adults. And its shadow misses no one. Nearly $50 billion is spent annually on caring for Alzheimer sufferers and, as our society ages, this disease could easily ravage the nation's economy.

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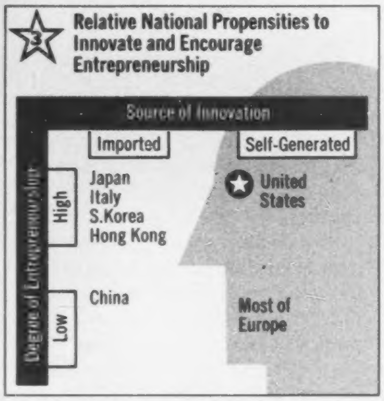
with Japan and Korea as we are with Germany and Spain.

We have much less data about the rest of the world, but that which we do have suggests that the rest of the world, at least statistically, is more like us. The Japanese now derive nearly all of their new jobs from small and midsize companies (figure 4). My Japanese friends assert that the Koreans are much more like us than like them—although no one has any facts to support or refute the assertion. A survey of 4,000 small-business owners in 10 countries revealed, though, that Third World entrepreneurs are more aggressive even than we. The percentage of small-business owners planning to increase future employment is 77% in the Third World. In the United States, it's 67%, and in other developed nations, 57%. It would seem that we are not alone in our reliance on small growing firms to create jobs, and that Europe is an exception rather than the world norm.



The advantage: Americans dream things up and bring them to market.

Taken in total, what does all this mean? If our business climate is special, what are its benefits? What are its costs?

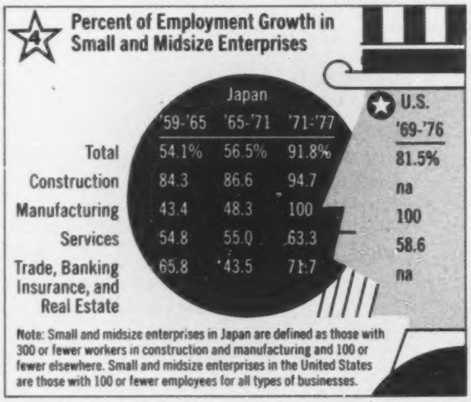
First, there is no more fertile soil in the world for starting a business. Nowhere is the access to innovation more closely aligned with a culture that supports people who want to grab for the ring. We tolerate, and even applaud, the sort of people who name computers after fruit and software after flowers. Those of you considering a move out on your own, or those of you already there, cannot complain that we have an inferior climate in which to work.

But the climate is far from perfect. What may be Mecca for the entrepreneur can be a nightmare for the 15% of our work force with no health insurance, or for any of the 10 million Americans who involuntarily lose their jobs each year, or for the roughly 10 million more each year who must change careers to remain viable in the work force. Our yeastiness is costly. Turbulence exacts a price that Europeans have already decided they are unwilling to pay. And here the price is being paid by a growing number of Americans who are afraid and want protection.

We will have two options for dealing with their fear: 1) slow our system down, or 2) be more creative about coping with turbulence and job mobility. To slow the system down, of course, would be to give up the culture that has created almost 10 million jobs already in this decade and that has consistently produced one of the lowest unemployment rates in the world.

A far more American solution would be to come up with our own special way of handling mobility. We need to help people learn new skills. We need to make it easier (and less threatening) for people to move from one place to another and from one company to another. In short, we need to be as inventive about coping with change as we have been in creating it. The exact mechanisms by which we can do this merit discussion in their own right—and I will return to this topic in a future column.

The important point now, as we celebrate Independence Day, 1987, is that the ideals we fought for so many years ago have yielded a unique economic climate that offers large measures of opportunity and that now poses great threats to many of the people who labor to make it work. Because we are unique, we can't draw heavily upon the experiences of others for our solutions—we must create our own. That, in my opinion, is the greatest challenge we'll face over the next 20 to 30 years. □


4
Percent of Employment Growth in Small and Midsize Enterprises

	Japan '59-'65	Japan '65-'71	Japan '71-'77	U.S. '69-'76
Total	54.1%	56.5%	91.8%	81.5%
Construction	84.3	86.6	94.7	na
Manufacturing	43.4	48.3	100	100
Services	54.8	55.0	63.3	58.6
Trade, Banking Insurance, and Real Estate	65.8	43.5	71.7	na

Note: Small and midsize enterprises in Japan are defined as those with 300 or fewer workers in construction and manufacturing and 100 or fewer elsewhere. Small and midsize enterprises in the United States are those with 100 or fewer employees for all types of businesses.

Patterns of job creation in the Pacific have become more like those in the United States.

David L. Birch is president of Cognetics Inc. and director of MIT's Program on Neighborhood and Regional Change.

MARKETING

SELLING TO THE NEW AMERICA

A new wave of immigration is changing the complexion of the American consumer market, turning 'minority' markets into 'majority' ones

BY JOEL KOTKIN

NINETEEN YEARS AGO, MARK ROTH left his job as manager of the food division of a chain of discount stores to take over a dying food market in a working-class section of Los Angeles. Within a week, he had doubled sales at the store, which now serves as the base for a specialty-food business with customers throughout the Southwest.

In 1981, orthodontist Ron Greenspan assumed ownership of a lackluster Volkswagen dealership on San Francisco's "auto row." With a radical change in marketing strategies, he transformed it into the second largest dealership in America.

Harriet Nickolaus, a mother of three from Greenwich, Conn., had virtually no marketing experience when she started peddling her homemade Muscle Medic ointment. Yet with a healthy advertising budget and a change in market focus, she increased her sales last year tenfold and opened up important new export markets.

These three entrepreneurs have two things in common. They are all white, native-born Americans of European descent. And they all have positioned their businesses to ride a wave of recent immigration that is radically changing the complexion of the American consumer marketplace.

Forget seniors. Forget yuppies. Forget female professionals. For sheer numbers and purchasing power, it is immigrants, most of them now from Asia and Latin America, who represent the fastest-growing domestic markets. While Asians and Hispanics were only a few drops in the national melting pot just 20 years ago, they now account for nearly 10% of the American population. And at some magic moment in the next century, they and their offspring—together with America's black population—will constitute an absolute majority of American consumers (see charts).

You don't need a futurist's crystal ball to catch a glimpse of the New America. In New York City, Hispanics are about to become the largest minority group, surpassing blacks, while in cities such as Miami, San Antonio, and El Paso, they already constitute an absolute majority of the population. San Francisco's Asians, about 15% of the population in 1970, already outnumber the local Anglo population by some estimates. And Los Angeles, once jokingly dubbed "the largest city in Iowa" because of its ethnic homogeneity, now boasts a hodgepodge of ethnic and racial minorities who together easily outnumber its residents of European descent.

These new demographic trends represent just the latest chapter in what sociologist Nathan Glazer calls the "permanently unfinished story" of America, a nation that continues to take in more immigrants each year than all the rest of the countries of the world combined. Immigration has always been the source of the remarkable self-renewing power of the American economy—the source of new people, new ideas, new products, and new markets. Similarly, it has always been a source of social unrest and political discord. For U.S. business, that presents both challenge and opportunity.

The challenge is to resist the temptation to write off each wave of new consumers as a fringe or niche market, insignificant and impecunious. Such nativist insularity is nothing new—the economic history of the nineteenth century is littered with now-defunct businesses that clung bitterly to their familiar customs and customers rather than adapt to the waves of Italians, Germans, and Russians who swelled the populations of the great cities of the East and Midwest. Today the Sunbelt cities of the South and West are favored ports of entry for the American dream. And it is no coincidence that these are the cities enjoying the highest rates of growth and newfound wealth.

To those who embrace the New America comes a rare business opportunity—the opportunity to sell into rapidly growing, untapped markets largely free from competition. Although a handful of companies such as Anheuser-Busch, Coca-Cola, Kraft, and Campbell Soup have made special efforts to sell to the New America, big business still largely ignores it. By and large, these are still local and regional markets, and as Mark Roth, Ron Greenspan, and Harriet Nickolaus all happily discovered, they are markets just craving to be served.

"It's a whole new ball game out there," states Ed Escobedo, a Los Angeles consultant who advises businesses on marketing to Hispanics. "People have to start realizing that these new immigrants have a lot of buying power. Instead of thinking of them as undocumented aliens, maybe it's time to start thinking of them as undocumented consumers."

The New America arrived in the Los Angeles suburb of El Monte in the late 1960s. Like many communities in the San Gabriel Valley east of downtown, El Monte was changing rapidly from a predominantly white community to one that was predominantly Hispanic. To the owner of the local Mars Market, it was a transformation he wanted no part of.

"The guy simply wanted no Mexican trade," recalls Mark Roth, who purchased the failing business in 1969 for $72,000. "He didn't carry the products they wanted or the cuts of meat they could afford. He just wanted to cater to the so-called elite of El Monte. And he was starving to death."

But where the old owner saw a mere rabble, Mark Roth spotted opportunity. Back in his native Belfield, N. Dak., Roth had watched his father build the family grocery store by catering to the community of Ukranian refugees who had settled there in the early 1920s following the Russian Revolution. The majority population in Belfield—German, Dutch, and Scandinavian in origin—generally looked down on the Ukranians and kept them at a distance. The South Side Mercantile Co. was one of the few places where the immigrants were not only welcome, but courted.

Working with wholesalers in Minneapolis, Adam Roth took pains to import the foodstuffs traditional to eastern European cuisine. And when products like kielbasa, the Polish-style sausage, were unavailable, he made them himself. If harvests were lean, Roth would extend credit to the immigrants as best he could. He even taught himself Ukranian—and in the process, taught his son a valuable lesson about markets and marketing.

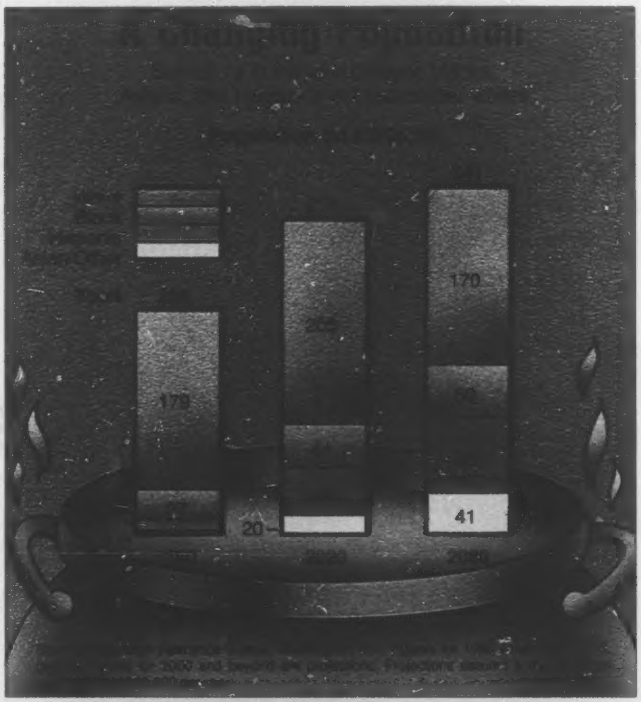
"My father always said that the new arrival was the best customer," the son remembers. "They are settling down, so they need pots and pans and staples. And they are people on the way up. The Ukranians dominate the whole area back there now."

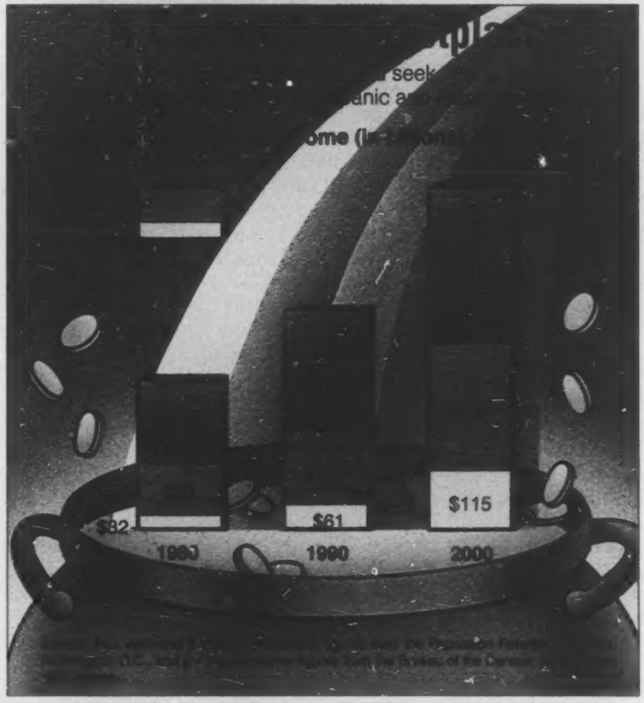
Mark Roth sees in today's Mexican immigrants grocery customers every bit as ideal as the Ukranians of the '20s. They represent a growing market, both in terms of numbers and affluence—Los Angeles Hispanics today constitute a consumer market roughly the size of metropolitan St. Louis. And they spend more on food than Anglos—$20 more per week than other shoppers, according to a recent supermarket study.

To appeal to this market, Roth started by hiring local Spanish-speaking employees, both as a way to facilitate communication with non-English-speaking customers and to tie the market to the community. Today, about two-thirds of the employees at Mars Market are Spanish speaking. And the community ties are more than simply commercial: a former box boy once counted relations to 52 different families in the area.

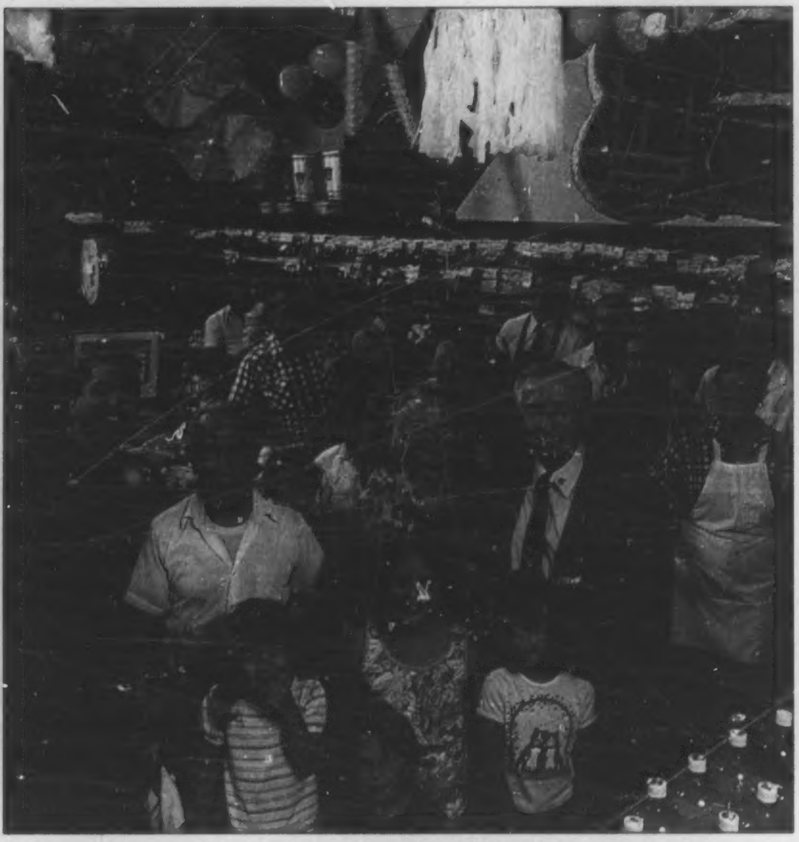
The focus on family has been the key to Roth's marketing efforts. Because Hispanics spend relatively more of their free time with their extended families, shopping is often a group affair, not a lonesome chore. From the start Roth hoped to turn that cultural reality to his advantage. On the first weekend after taking over the stores, he brought in Ray Walston, star of the popular TV show "My Favorite Martian," as a celebrity draw. A Mexican mariachi band provided music, and there were balloons and prizes for the kids. Some of the Anglo customers were bemused, others offended. But when the week was over, Mars Market's sales had doubled.

It is not surprising that such fiestas are now regular-





CHARTS BY WARREN ISENSEE



Los Angeles-area grocer Mark Roth and crew

Sales doubled once products and marketing were targeted to neighborhood Hispanics.

ly featured at Roth's store. And even on weekdays, Mars Market has more of the feel of a Mexican town square than a sterile American supermarket. Aisles are gaily decorated in bright colors, and customers mingle at the complimentary salsa and chips table. Although Roth himself never learned to speak Spanish, he is a friendly and familiar presence with employees and customers.

Product selection, too, is geared toward Hispanics, who now account for nearly three of every four customers. Next to the lettuce and onions in the vegetable section are cactus leaves, hot chilies, and other Mexican ingredients. The meat department has long since stopped pushing high-priced meats, such as porterhouse and London broil, in favor of large displays of the chuck steak and neck bones used in many traditional Mexican dishes.

But perhaps Roth's most clever and important move was to install a *tortilleria*—a bakery for making tortillas—just inside the main entrance to the store. By producing hot, fresh corn tortillas, the staple of the Mexican diet, Roth gave every Mexican family in El Monte a reason to shop in his store. Fresh burritos, tamales, enchiladas, and other Mexican specialties soon followed, and continue to give him an edge even as the large supermarket chains have finally begun to make a push for the Los Angeles Hispanic market.

Although most of the techniques for marketing to Hispanics are fairly obvious, Roth has found that nuances can also be important. Early on, for instance, Roth thought it would be a great idea to print up posters and fliers for the stores in Spanish for his growing clientele of non-English-speaking customers. But to his surprise, this offended not only his Anglo clients, but also many Mexican-Americans who had already been in the United States for a generation and resented being lumped in with the recent arrivals. His solution: print fliers in English, but use large pictures to illustrate the items on sale.

"When we started all this, people asked us, 'Why are you catering to those wetbacks?' " Roth explains, "The payoff is that we have built credibility with these people over all these years. They may not speak the language, but they sure learn fast how to use the currency."

Mark Roth's success in El Monte reflects the more traditional side of marketing to ethnics—selling specialized food and everyday low-cost staples to first- and second-generation Americans right in their neighborhoods. But today's immigrants are not all huddled masses yearning for entry to the middle class. Many of them are already there.

Asian-Americans are perhaps the most populous such group. They are two or three times as likely to hold a college degree as the average American adult. They are also more likely to hold positions as managers, executives, or professionals. And among the Japanese, Chinese, and Filipinos, average family income already exceeds that of whites.

San Francisco has long been the capital of Asian America. During the past 15 years, Asians have more than replaced the whites who fled the city for surrounding suburbs. But the San Francisco Chinese are no longer the poor immigrant FOBs ("fresh off the boat") of the popular imagination, washing dishes in a small Chinese restaurant or stitching garments in a stuffy sweatshop, living in crowded flats on the quaint but squalid streets of Chinatown. Today they constitute a prosperous consumer market, with 41% owning their own houses. When the Brahmins of the city's Nob Hill complain about the Chinese these days, it has nothing to do with poverty, crime, or prostitution. The fear is that the Chinese are "taking over too much" of the city's property and businesses.

For Volkswagen dealer Ron Greenspan, word of this newfound affluence came straight from the horse's mouth, you might say. Greenspan, you see, was an orthodontist who opened a small practice in a comfortable San Francisco neighborhood in 1969. Back then, 70% of his practice was white. A decade later, at least 70% was Asian, mostly Chinese. "I learned fast that these folks had money when they began paying with cash," recalls Greenspan.

Straightening teeth, however, was never Greenspan's great love—cars were. And in 1981, he bought one of San Francisco's two VW dealerships for $250,000. At the time, this was a business going nowhere. The flocks of youthful, white San Franciscans who had bought up "Bugs" by the boatload now were opting for more expensive German imports or cheaper cars from Japan. Once one of the strongest VW operations, the San Francisco outlet had dropped near the bottom of the list of the country's 900 dealerships.

It was natural that Greenspan would find former patients among his new customers. What was not so predictable is that this Jewish dentist from Cleveland could build a booming trade selling German cars to the Chinese. That required a good deal of ingenuity.

Greenspan started out by placing ads in such outlets as the *Asian Yellow Pages*, a popular Chinese-language advertising medium. He mailed fliers into middle-class Asian neighborhoods such as the Richmond section of San Francisco, and the nearby suburb of Daly City, with its large concentration of Filipinos. Taking his cue from his salesman father, Nat, who had encouraged

PHOTOGRAPH BY BLAKE LITTLE

him as a youth to sell everything from shoe polish to toilet deodorizers door-to-door, Greenspan sent his salesmen out into the streets of the city to visit shops and hangouts frequented by the Asian bourgeoisie.

Bringing Asian customers into the showroom, however, was the easy part. Persuading them to buy was where the real challenge began. And it was here that his experience in the dentist's office began to pay off.

"The problem is that a lot of people don't really see Asians as people," Greenspan explains. "There's a great mystique about the Asian, and how hard he is to sell. Salespeople tend to be intimidated by them."

Most intimidating was the Chinese penchant for tough bargaining over price. To the Chinese, this is simply a normal part of the business culture. But to someone more accustomed to American business—even a car salesman—the exchange can seem downright cutthroat.

"When the guy comes in here and makes a ridiculous offer on a car, you don't get mad," Greenspan instructed his salesmen. "You come back with something equally ridiculous and have a good laugh. Then start your real negotiation."

Another facet of Greenspan's "Asian Sensitivity Training" focused on dealings with the family. The Chinese prefer shopping in large family groups, with buying decisions usually made by the family elders. Greenspan explained to his salesmen that while the car might be for a teenage schoolgirl or a middle-aged engineer, the successful sales pitch may have to be directed to the grandfather or elderly uncle. To help things along, 75-year-old Nat Greenspan is often on hand to make the generational connection.

"I introduce the father to my father, and there's an immediate bond there," Greenspan explains.

You may think all this is fairly subtle stuff, but Greenspan's Chinese customers apparently appreciate the considerations. Largely as a result of sales to Asian-Americans, Greenspan has now boosted car sales from only 20 a month to more than 100. In 1984 and 1985, Ron Greenspan's dealership ranked second in the nation in terms of VW sales. And in 1986, it was sixth.

Three thousand miles away in Miami, Toyota dealer Richard Goldberg has had a similar success. These days, much of Miami's white business establishment has turned its back on the city's new Hispanic majority—a popular bumper sticker of the early 1980s asked bitterly, "Will the last American to leave the city please lower the flag?" But Goldberg didn't buy the conventional Anglo version of what makes for a good American, or a good customer. Growing up in Newark, N.J., Goldberg counted blacks, Italians, and Jews among his friends. So why, he asked himself, couldn't his customers be Cuban or Colombian or Salvadoran?

San Francisco car dealer Ron Greenspan and customers

Can a Jewish dentist find happiness selling German cars to the Chinese? You bet.

Goldberg, in fact, was so convinced of the future of Miami's Cuban market that he upped and moved his dealership from the city's north side, with its concentration of black and Jewish populations, into a heavily Hispanic neighborhood just east of Little Havana. If other car dealers wanted to continue to compete for the 20% of the city that was still Anglo, so much the better, he told himself.

"We came here because it was a growing area, not because it was Hispanic," Goldberg explains matter-of-factly. "We wanted to go where there would be the most people with the bucks to buy Toyotas."

In the five years since the move, Goldberg has used most of the familiar techniques for marketing to minority consumers. Nearly 90% of Expressway Toyota's 150 employees, including much of his top sales staff, are Hispanic, and the predominant language on the showroom floor is Spanish. And on weekends, he has used every family draw he could think of—Latin singers, clowns, acrobats, even an elephant.

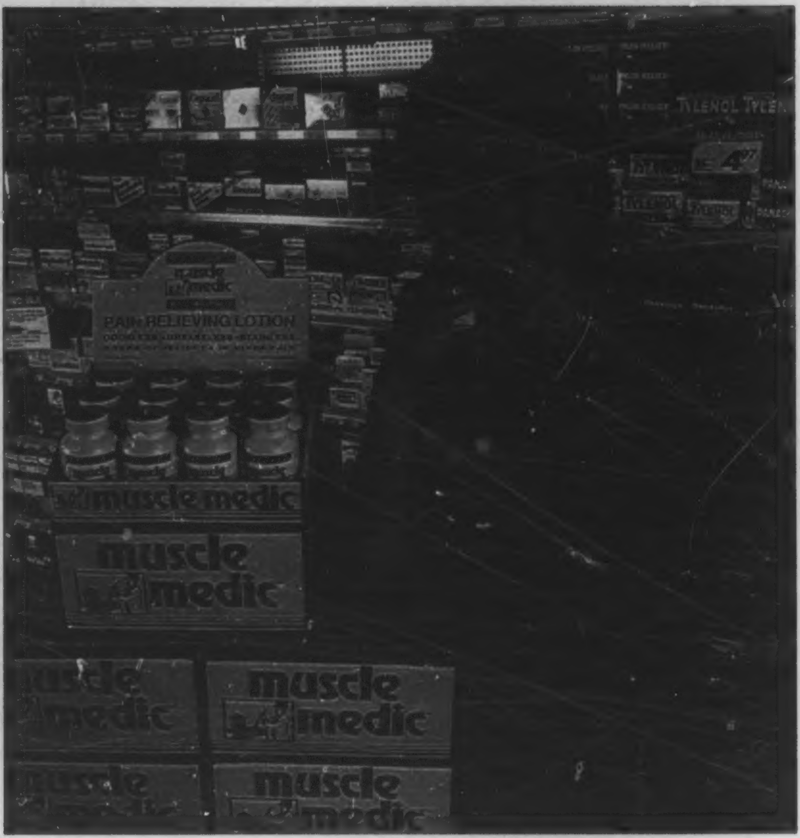
But perhaps the most important changes were in Goldberg himself. When he made the move, he looked on Hispanics as business prospects. Today, he thinks of himself and his business as part of the Hispanic community. Over the past few years, Expressway Toyota has poured thousands of dollars into Latin community events, including beauty pageants and the annual *Calle Ocho* festival in Little Havana. Goldberg also sponsors youth baseball and soccer teams. And if, as the French philosopher once said, you are what you eat—well, you might as well call him Ricardo Goldberg.

"Give me a Cuban holiday and we'll sponsor it," jokes Goldberg between gulps of *sopon*, a spicy Cuban fish soup. "I really like this culture. And I think they can tell that."

In the last analysis, that may be what marketing to minorities is really about. Be it the Mexicans of El Monte or the Chinese of San Francisco or the Cubans of Little Havana, what "minority" consumers respond to most eagerly is a level of respect that, too often, is missing in their transactions with mainstream businesses. Targeted advertising, bilingual salespeople, and special events all help to break down barriers. But their long-term value is to confirm for minorities that they are genuinely welcome and valued not just as consumers, but as people—and as Americans.

"If the Hispanic respects you and you respect him, I think he's a better customer than the Anglo," says Goldberg, whose business from repeat customers is now twice what it was in North Miami. "With the

PHOTOGRAPH BY BLAKE LITTLE



Patent-medicine maker Harriet Nickolaus

Success in Miami's Latin market has now opened the doors to mainstream Anglo markets.

Anglo, you're always bargaining. They are interested in only one thing—the price. They'll go across the state to save 50 bucks. But with Hispanics, if you earn credibility, that's it. Sure, we sell the car as cheap as anyone. But what makes it work is that we've created the image that if you're Hispanic, you buy your Toyotas here."

Today, Goldberg lays claim to more than half of Toyota's Hispanic market in Miami—not bad for a city where Hispanics are an undisputed majority. As a result, sales have climbed 400% in six years, to $75 million last year. Once only 350th in sales among the 1,100 Toyota dealers nationwide, Expressway Toyota so far this year is ranked number 22.

It's true what they say: if you pitch your company openly to minority consumers, some of your traditional Anglo customers may go somewhere else. The vaccine for bigotry hasn't yet been discovered. But it is also true that minority marketing can have just the opposite effect, providing an effective and inexpensive access to a wider, mainstream marketplace.

That's the way it has worked out for Harriet Nickolaus. A dance teacher from Greenwich, Conn., Nickolaus backed into business after concocting a homemade muscle pain-relieving lotion for her choreographer husband. Later, several friends tried and liked her mixture of water, herbs, and spices, and it was only then that she began to think of selling it to the public.

Her idea was to position it as a "natural Ben-Gay," and the logical market, she figured, was New York City health-food stores. But for two years Muscle Medic languished on the shelves, in need of the kind of promotion Nickolaus could not afford. In 1985, sales barely reached $48,000.

Then, on the strength of the response she'd received from a few Haitian friends, she placed Muscle Medic in some local *bodegas*, small markets that cater to Hispanics. In contrast to the health-food stores, the *bodegas* seemed able to move the product among Hispanics. When she learned that Hispanics have traditionally been enthusiastic customers for a variety of home remedies, she decided to abandon the health-food stores and New York and to move to Miami.

"I realized that Miami was a large Latin market with a lot of local media," she explained over drinks at The Alexander Hotel in Miami Beach. "It was a market we could really reach." Gambling with a $200,000 advertising budget, she invested most of it in Spanish-language television, appearing herself before the camera to explain her product. Her ads were every bit as homemade as her product—she had taught herself just enough Spanish to make the spots. But however awkward her presentation, Hispanic viewers seemed to respond favorably to an Anglo woman attempting to sell to them *cara a cara*.

"When I got on and said in Spanish, 'You have nothing to lose but the pain,' it really caught on," said Nickolaus. "I use a very personal approach, like Frank Perdue and his chickens. I go on and say that I made this for them. They seemed to appreciate that an Anglo woman would do that—and say so in Spanish."

Sophisticated marketeers might sneer at Nickolaus's analysis, but not at the growth in her sales figures. By the summer of 1986, she was selling more product in a month than she had sold in a year through New York City health-food stores. At the same time, visitors from Latin America—who number in the millions each year—started picking up the product, and orders soon began arriving from such places as Guatemala, Panama, and Costa Rica.

The response from the Hispanic market was encouraging. But more encouraging still were the calls that began to come in from the large Anglo-owned stores, whose managers had seen the ads and heard of the customer response. Today Nickolaus counts among her customers 150 Anglo stores, including Eckerd Drug Stores, a major chain in the Southeast, which now carries Muscle Medic at all of its Florida stores, even those located outside Hispanic neighborhoods.

"I never expected it, but our success with the Latins in Miami opened everything up for us," says Nickolaus, who now reports sales of $400,000. "It was the Latins who led us to the Anglo market."

Is this simply a fluke, an isolated case of good luck? Not to hear it from the business owners themselves.

Take the case of grocer Mark Roth in El Monte, where our story began. Although Roth's Mars Market continues to be profitable, he finds these days that he is facing increasing competition from large supermarket chains that have begun to employ some of the same strategies he has long used to attract Hispanic shoppers. At certain key locations, these chains are now stocking large quantities of Mexican-style meats and produce. Some have stepped up the hiring of Spanish-speaking employees. A few have even installed their own *tortillerias*.

In the long run, Roth figures he cannot prevail against the giants in an industry that measures profit margins in tenths of a percent. So he has found a way to turn the trend to his advantage. Instead of remaining a competitior to the chains, Roth has decided to become their supplier.

It all started several years ago, when Roth, celebrating the opening of his new *tortilleria*, asked one of his employees to make a little salsa to go with the corn chips.

PHOTOGRAPH BY RED MORGAN

THE LESSON OF MONTEREY PARK

The white merchants of this Los Angeles suburb decided they didn't want the Chinese trade. Now, many of them are out of business

Only a decade ago, Monterey Park was a sleepy, all-white suburb on the eastern fringes of Los Angeles. Each morning businessmen gathered, as in a scene from a Norman Rockwell painting, at a coffee shop to discuss local goings-on. And come election time, it was the same group who often dictated who would serve as mayor and city councillor, and who would not.

Since those days, Monterey Park has taken off in ways that would make most merchants envious. Spurred by an influx of well-educated, affluent new residents, there are today scores of new office buildings, shops, and restaurants in the downtown districts and in new outlying shopping centers. Commercial space that went for $5 a square foot back in the early 1970s now goes for $45 and more. Deposits in local commercial banks jumped $400 million.

Yet if prosperity has come to Monterey Park, few of the merchants who once gathered at the coffee shop are still around to enjoy it. For rather than welcoming the Chinese and Southeast Asian families who now comprise more than 40% of the city's population, many of the city's white businesspeople have spent the better part of a decade fighting them. Some have sold out grudgingly—and greedily—to Chinese interests and moved away. Others tried to hold on to a shrinking base of white customers before closing down or going bankrupt. And those still left behind spend much of their energy still trying to push back the Chinese tide, pressing for restrictions on further development and a ban on signs written in Chinese characters.

Electrical contractor Kelly Sands (center)
Thanks to the Chinese, sales are up 1,100%.

BLAKE LITTLE

"You have a group of suburban, uneducated people out here who would like to turn the clock back to 1950 and hang a Chinese from every lamppost," explains George Ricci, past president of the local Chamber of Commerce. "These people didn't do anything to market to the Chinese. They left themselves open to be replaced."

Not everyone sees it quite that way. Marie Purvis, one of Ricci's predecessors at the chamber, runs a small art gallery and framing business and still longs for the good old days when "American" rather than Chinese restaurants lined Garvey Avenue. In fact, Purvis insists there is a Chinese conspiracy brewing to drive the white businesses out of town.

"It's deliberate. They have a plan, not that I know what it is . . ." says Purvis, who moved to Monterey Park from East Boston 35 years ago. "I am not used to being prejudiced against. We've always been discriminating against the newcomers, but no one has ever turned the tables on us before."

But if there is a conspiracy, Kelly Sands has not found it. Seven years ago, Sands took over Bezaire Electric Co., his family's contracting business. Sales seemed to have peaked at $300,000, and virtually all of the developers and major contractors who had worked with Sands's father and grandfather had either gone out of business or left town.

But Sands, a college dropout in his early twenties, noticed the rising number of Chinese developers around town. And rather than disdain these often well-heeled new players, he courted them. He hired a staff of young, aggressive Chinese managers to help communicate with his new market. He also adjusted his schedule to accommodate the demands of the hardworking Chinese entrepreneurs, who often held business meetings late into the night.

As a result of his efforts, Sands is one of the few white entrepreneurs to cash in on Monterey Park's demographic boom. He estimates that Bezaire gets at least half of the area's Chinese-related electrical contracts, which have boosted sales to $3.7 million. Nearly 80% of his customers are Chinese. His biggest project these days: a Buddhist temple going up several miles east of town.

"I think it's all in the mind-set," says Sands. "Either you adjust your mind-set to reality or you'd better get out of the way."

The response of the customers was so enthusiastic that he started packaging some for his Mexican-food deli counter. Later, he happened to bring some of the salsa to a meeting of area independent grocers. The grocers ate it all—and left him with orders for their stores.

Soon the workers in the backroom of Mars Market were churning out not only the original hot sauce, but other Mexican specialties such as guacamole and green chile sauce. Some of it he sold under his own El Burrito brand name, the rest he provided on a custom-label basis. Now, with sales last year close to $1 million and doubling annually, Roth is already making more money on his packaged foods than he is from the market. He has moved much of his production to a separate manufacturing plant several miles away. And he counts among his customers supermarkets as far away as Montreal and as close as El Monte.

All this started out of a calculated interest Roth and other grocers had in serving a growing Hispanic market. But it has now gone far beyond that. For to Roth's surprise, the largest orders for the packaged foods are not coming from stores in predominantly Hispanic sections of L.A. or San Antonio—they're coming from Anglo merchants serving mostly upscale Anglo shoppers. Roth estimates that Anglos now account for 60% of the market for his packaged Mexican foods. Setting out to sell to Hispanics, he has found himself on the forefront of the latest *American* food craze.

It is, of course, a familiar story. It is the story of pizza and pita pouches, of the bagel and the croissant, of sushi and chop suey. It is a story of minorities that become majorities and majorities, minorities—of Ukranians and Mexicans and Cantonese and Cubans who constantly define and redefine what it is to be American. *E pluribus unum*—from the many, one—is how it reads on the seal of the United States. For 200 years it has been the motto of American democracy. Now, it is a political creed that translates nicely into a marketing strategy for American business. ☐

Research assistance was provided by Sarah Clifford.

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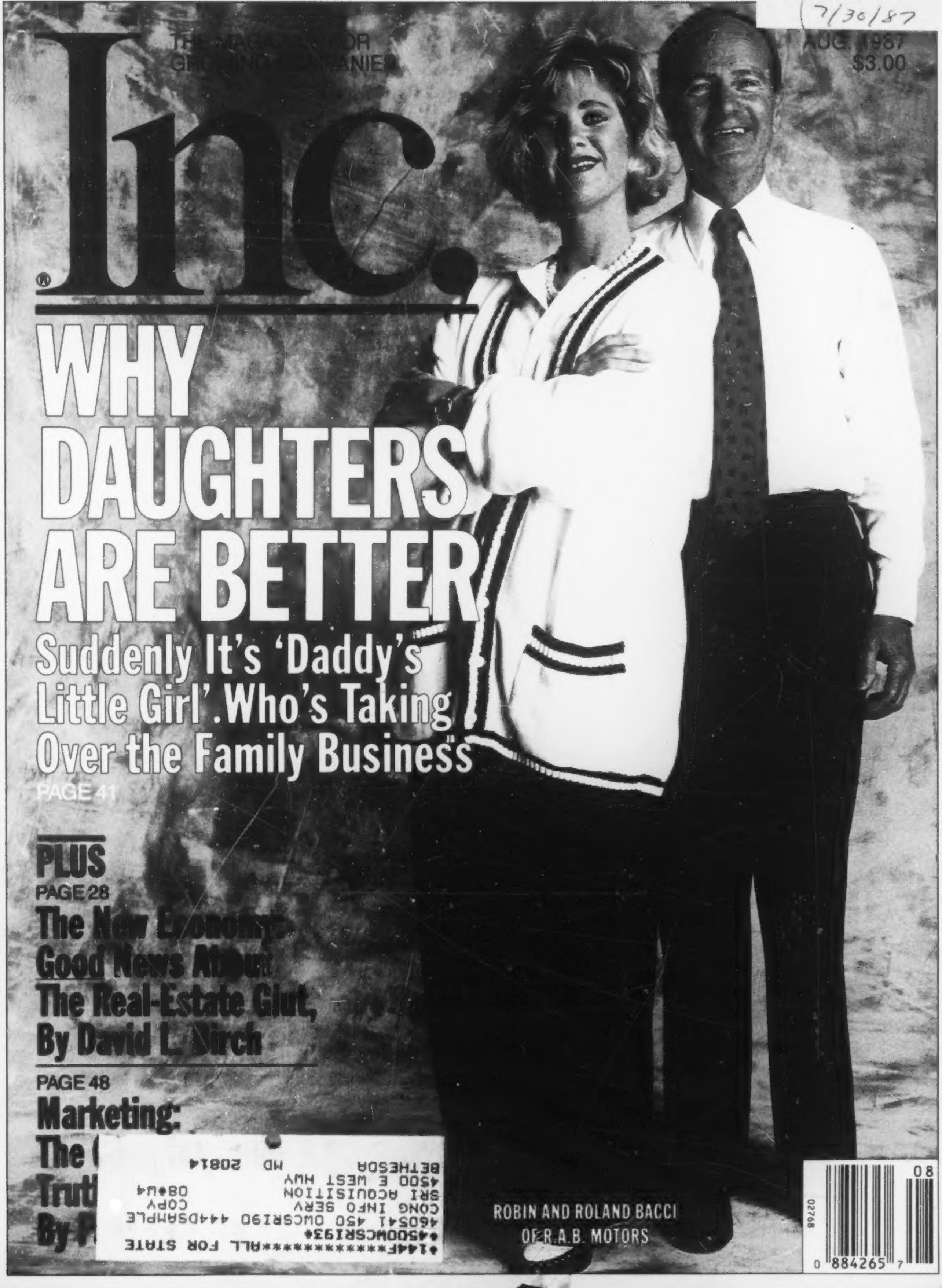

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WIDE OPEN SPACES

The real-estate glut is bad news for developers and lenders but good news for almost everybody else

BY DAVID L. BIRCH

In a Denver spa not long ago, I asked my steam-room compatriot (a Denver local) what he was paying for office space. "Five cents a foot," he said.

"Per year?" I asked incredulously.

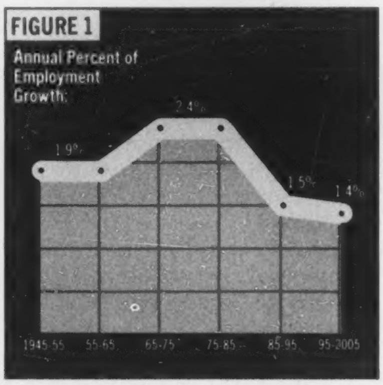
"Per year," was the answer, and he had been out that day shopping for *a better deal*. How can that be? How can something costing $16 or $17 a year to operate sell for 5¢?

What my Denver friend has happily discovered is an example of the strange circumstances a major economic transition can produce. His particular case may be among the most extreme—but it's being repeated to some degree in almost every real-estate market in the country. There is a glut of office space at the end of a four-year period when demand for it has been extraordinarily strong. We should be out of office space by now, as we were in 1980 after the 1976–1980 boom. But we're not—not by a long shot. How did this happen, and what does it mean for all of us who own or lease space?

The explanation has to do with demographics—which, as we'll see, one ignores at one's peril. The story starts about 15 or 20 years ago when the war babies began to hit the labor force. Their arrival caused a huge bulge in the pace of employment growth, speeding it by 26%, beginning in the decade 1965–1975. A graph of the war baby employment influx (see figure 1) looks like the profile of a snake that has recently eaten a watermelon.

About half the war babies, of course, were women. But unlike their mothers, many of *these* women decided they wanted to work as well as raise families. From the immediate postwar years to 1985, the percentage of women who worked nearly doubled (see figure 2)—this at a time when the number of women available to work was rising as well.

FIGURE 1



Post–World War II baby boomers hit the labor market in the decade 1965–1975.

The office-space story is made richer by the fact that war babies of both sexes decided they didn't want to work in factories. Of the 38 million jobs added to the economy between 1966 and 1986, not one was in manufacturing. Most of the war babies wanted to work in offices. They wanted to join the service economy, wear white shirts, and become managers or clerks.

So we built them offices—at an extraordinary rate. Between 1975 and 1985 alone we built 36% of all office space ever built in the history of America. Since most of it was leased, since there was an enormous amount of money pouring in from swelling pension funds and from abroad (initially from Europe and the Middle East, more recently from Japan), and since the tax codes made it very profitable to build office space and even to hold it empty for a while—we kept on building.

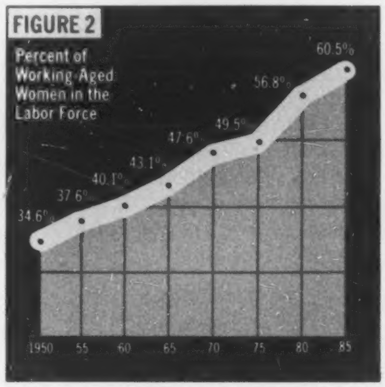
In fact, we built far more than we needed at the time, because there always appeared to be some greater fool who would come along and take it off our hands. (The "greater fool" theory explains many economic follies of the past, and this one is no exception.) In general, one in five office buildings built between 1975 and 1985 was not needed. In the Mountain West it was almost one in two; in the Oil Patch, more than one in three; in the Pacific West, about one in three (see figure 3).

Vacancy rates began to soar even as employment growth continued. By 1985, about one out of every five office buildings in the country was empty. In some cities, the rate was much higher. It was 25% in Houston, 22% in Denver, 23% in Dallas, and 33% in Phoenix.

Then a new reality began to set in. In some places, it was worse than reality. The oil shock delivered blows to the economies of Houston, Dallas, Denver, Tulsa, and New Orleans, the likes of which they had never seen. To make matters worse, Congress revised the tax code last year, making it no longer desirable to lose money—quite a jolt to the real-estate industry.

At the same time, other, more pervasive, trends began to emerge. By 1985, the watermelon was just about through the snake. Many women who had put off having children decided it was time to do so, and, in some cases, left the labor force. Employment growth began to slow down, and now is expected to slow even more—the rate for the next 10 years will be close to half what we've become used to. And my best guess is that the next 2 or 3 years in particular will be worse than that.

FIGURE 2



Office-space demand has been accelerated by the rising number of women who work.

CHARTS: NIGEL HOLMES

A study I did for Massachusetts Institute of Technology's Center for Real Estate Development predicts that during the next 10 years, under the most promising scenario, America will need to build only 50% as much office space as was built during the past 10. And however bad that sounds, it could be an understatement. The *Fortune* 500, from 1980 through 1986, reduced their employment by 2.8 million jobs—that's about the same as today's total work force in the commonwealth of Massachusetts, public and private. Most of those companies work with long-term leases that did not expire when they eliminated 2.8 million people. Now they are sitting on huge amounts of leased but empty space that is not counted in the vacancy statistics. A rough estimate suggests that these companies are holding enough vacant space to reduce the need for new construction in the next 10 years to *one-quarter* of its previous levels.

But construction hasn't stopped. It's slowed down, but not nearly enough. Buildings going up today were designed, financed, zoned, and committed to several years ago. Like turning around the *Queen*

Mary, stopping the office-construction industry takes a long time. The result? Buildings are actually declining in value. Average rents in buildings that break even at $16 or $17 a foot are $7.50 a foot in some Oil Patch cities. My Denver friend's rent, to come full circle, was down to 5¢ a foot—and he was searching. Even so, things will get worse before they get better.

For those of us who are tenants (and that's most of us), the overbuilding of office space is a real bonanza. You may not be able to do as well as the folks in Denver, but with even a modest amount of shopping you should be able to reduce your current rent, obtain free rent for several months, obtain substantial tenant improvements at no cost, and lock in attractive options on adjacent space so that you won't have to disrupt your company as you grow. This is a particularly good time to start a company in such a place as Houston, since you probably can live rent-free for a year or more. I was told of one lease in Dallas where the tenant's sole financial obligation for 200,000 square feet of new space over a five-year period was to keep the lights on until 11 p.m. and post a guard.

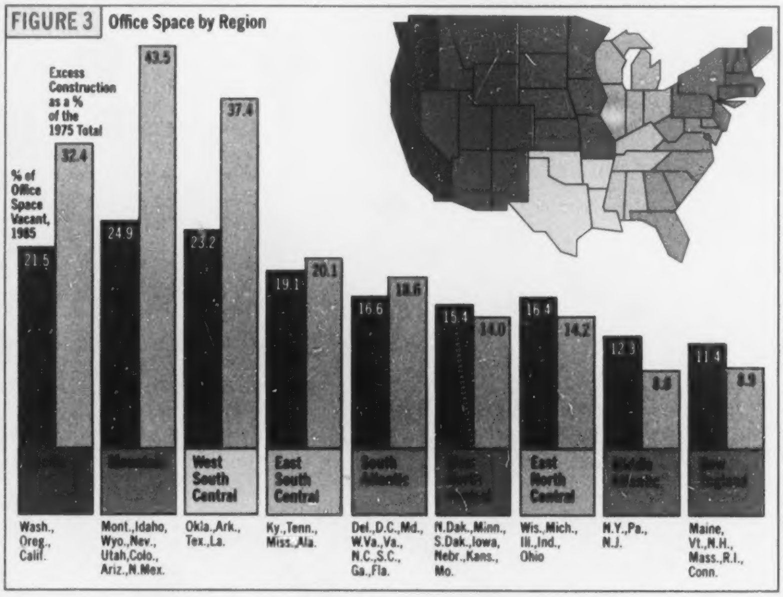
For prospective buyers, too, times are great. The main consideration—as continued construction in a slowing economy depresses the market further—is timing. The banks are just beginning to feel the pinch, as their real-estate portfolios shrink in value. The next 12 to 18 months could be an excellent time to acquire either a building or a long-term lease on very attractive terms.

Then there are the people who build and sometimes own buildings: many growing businesses, and many readers of INC., are developers. If you are one of them, your mission is clear. The time has come to switch from developing to managing. There are a few new buildings to be built, but not many, and everyone will be wanting to build them. Your main focus will have to be on managing better what you already have. You will have to figure out who needs your space—mostly smaller, growing businesses. You will have to find those companies—which is tough, because they're spread all over the place. And you will have to keep them happy. You'll have to offer them the day-care facilities, fitness centers, responsive building management, and aesthetics that they seek and—under the current circumstances—can demand. It will not be an easy time to be a developer.

Any major shift in the economy offers opportunities and causes problems. The oil shock hurt some cities and states badly, but helped the majority of us by lowering oil prices and keeping inflation under control. So it is with the overbuilding of office space nationwide. Some developers and banks and insurance firms will be harshly punished. The majority of us, though, will have an opportunity, over the next year, to acquire inexpensive office space under terms unparalleled in recent history. From our perspective, it couldn't be a better time to start and grow a company. ☐

David L. Birch is president of Cognetics Inc. and director of MIT's Program on Neighborhood and Regional Change.

FIGURE 3 Office Space by Region



Between 1975 and 1985, builders erected 36% of all office space ever constructed in the history of America. Now, there is too much.

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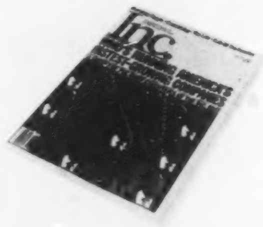

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INITIAL PUBLIC OFFERINGS (from page 112)

SMALL COMPANY INITIAL PUBLIC OFFERINGS: MAY 1987

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JETS	**Jetborne International**	Aviation support svcs.	3.75	3.75	4	Werbel-Roth
KMAG	**Komag**	Dvlps., mfrs., & mkts. thin-film disks	37.62	12.00	12¾	Robertson Colman
LMG[b]	**Lawson Mardon Group**	Produces flexible packaging	50.84	11.91[i]	11⅜	Merrill Lynch
LTIZ	**Liposome Technology**	Produces liposomes for pharm. applications	21.00	12.00	12	Montgomery Securities
MGI[a]	**MFS Government Markets Income Trust**	Closed-end mgmt. investment co.	850.00	10.00	10	Wheat First
MF[a]	**Malaysia Fund**	Closed-end mgmt. investment co.	84.00	12.00	12	Merrill Lynch
MTCIU	**Management Technologies**	Dvlps. & mkts. bank software	4.20	6.00[h]	6	D. H. Blair
MIKL	**Michael Foods**	Produces, processes, & distr. food prods.	32.00	16.00	16½	William Blair
MNPI	**Microcom**	Mkts. & svcs. data-comm. prods.	17.00	17.00	17¼	Salomon Brothers
MGC[a]	**Morgan Grenfell SMALLCap Fund**	Closed-end mgmt. investment co.	50.00	10.00	9¾	Wedbush Nobel
NIAM	**National Imaging**	Owns & operates tomography scanning systs.	5.23	5.50	5¼	First United Securities
NELL	**Nellcor**	Mfrs. medical monitoring equip.	38.40	16.00	16¾	Goldman Sachs
NJST	**New Jersey Steel**	Owns & operates steel mill	36.90	20.50	20½	Paine Webber
ONPR	**One Price Clothing Stores**	Operates women's clothing stores	15.00	15.00	16¾	Alex. Brown
OSBN	**Osborn Communications**	Operates radio & TV stations	8.00	8.00	8	E. F. Hutton
PSBX	**Peoples Savings Bank FSB**	Savings bank	7.65	11.00	11	Oppenheimer
PYE	**Progressive Income Equity**	Closed-end mgmt. investment co.	50.00	10.00	10	Edward D. Jones
RARB	**Raritan Bancorp**	Bank holding co.	2.35	10.00	10	Ryan Beck
RTP[a]	**Reich & Tang L.P.**	Investment mgmt. svcs.	33.00	15.00	15	Lazard Freres
SAFM	**Sanderson Farms**	Processes & mkts. chicken and other food prods.	16.10	14.00	14	Smith Barney
SHE[a]	**Shearson Lehman Brothers Holdings**	Securities firm	476.00	34.00	34	Shearson Lehman
LIPSU	**Showcase Cosmetics**	Packages, distr., & mkts. cosmetics	3.00	5.00[j]	5	D. H. Blair
SGDN	**Surgidyne**	Designs, dvlps., & mkts. surgical prods.	2.25	2.00	2⅜	Westonka Investments
TOPP	**Topps, The**	Produces bubble gum & collectible cards	22.10	13.00	13	Goldman Sachs
TIF[a]	**Tiffany & Co.**	Retails jewelry	80.50	23.00[k]	23	Shearson Lehman
TONS	**Tons of Toys**	Operates toy supermarkets	5.20	4.00	4	McKinley Allsopp
WBNC	**Washington Bancorp**	Bank holding co.	6.25	10.50	10½	Ryan Beck
WFSB	**Washington Federal Savings Bank**	Savings bank	1.76	10.00	10	Merrill Lynch
WHOO	**Waterhouse Investor Services**	Brokerage svc. holding co.	7	7.00	7¾	McKinley Allsopp

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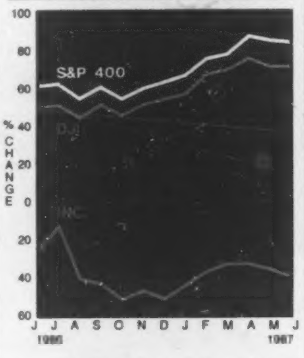
Initial public offerings sold at $1 or less not included; issues without underwriters not included. First aftermarket bid is approximate. [a] trading on NYSE; [b] trading on AMEX; [c] additional 1.1 million shares were offered overseas; [d] units of 1 common + 1 warrant; [e] units of 5 common + 2 warrants; [f] additional 700,000 shares were offered overseas; [g] additional 1.25 million shares were offered overseas; [h] units 2 common + 1 warrant; [i] additional 6.03 million shares were offered in Canada and 5.01 million shares were offered overseas; [j] units of 4 common + 4 warrants; [k] additional 1 million shares were offered overseas. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York, NY 10038.

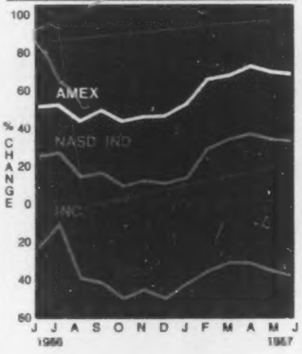
INVESTING IN GROWTH COMPANIES

INC. vs. CONSERVATIVE AVERAGES



All averages start at 0 on May 1, 1982.

INC. vs. SPECULATIVE AVERAGES



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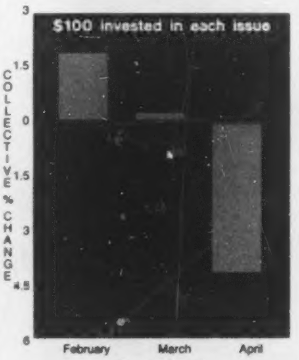
IPOs IN THE AFTERMARKET



To June 1, 1987.

SMALL COMPANY INITIAL PUBLIC OFFERINGS: MAY 1987

O-T-C sym.	Company	Business/product	Offering Size ($mil.)	Offering Price	First aftermarket bid	Underwriter
SODA	**A & W Brands**	Mfrs., mkts., & distr. soft-drink concentrates	37.40	11.00	10⅞	First Boston
ALS[a]	**Allegheny Ludlum**	Mfrs. steel	129.13	25.00[c]	27½	Goldman Sachs
AMMT	**American Medical Technology**	Assembles medical-procedure packs	3.35	5.00	5	Buchanan
ASCRU	**American Screen**	Dvlps. & distr. motion pictures	3.00	3.00[d]	3	Mostel & Taylor
VOX[b]	**Audiovox**	Mkts. & distr. auto accessories	40.40	16.00	15⅜	Donaldson Lufkin
BMCC	**Bando McGlocklin Capital**	Small-business investment co.	4.78	6.38	6⅜	Milwaukee Co.
BAYCU	**Bay Area Recovery Centers**	Provides home health svcs.	3.75	7.50[e]	8½	Reich & Co.
BNP[b]	**Boddie-Noell Restaurant Properties**	Owns restaurants	31.20	12.00	11¾	Alex. Brown
BOYS	**Boys Markets**	Operates supermarkets	14.35	10.25	10	Merrill Lynch
BDGT	**Budget Rent A Car**	Car and truck rental	35.00	14.00[f]	14	First Boston
CNBKA	**Century Bancorp**	Bank holding co.	11.40	7.13	7	Moseley Securities
CPX[a]	**Cineplex Odeon**	Operates motion-picture theaters	25.92	14.81	14	Merrill Lynch
CSOLU	**Convergent Solutions**	Dvlps. & mkts. computer software	3.50	2.00[d]	5¾	Fitzgerald DeArman
CXIM	**Criticare Systems**	Mfrs. patient-monitoring systs.	7.35	5.25	5¾	Steinberg & Lyman
CMBK	**Cumberland Federal Savings Bank**	Savings bank	20.64	10.25	10¼	Drexel Burnham
DTCI	**Data Technology**	R&D & mkts. storage controllers	22.33	11	12	Hambrecht & Quist
DMIC	**Digital Microwave**	Designs, mfrs., & mkts. comm. prods.	27.75	15	15¾	Goldman Sachs
TOOL	**Easco Hand Tools**	Mfrs. mechanic & auto tools	35.75	11[g]	10½	Paine Webber
ENVI	**Envirosafe Services**	Hazardous-waste mgmt.	20.25	15.00	15	Robinson-Humphrey
FFP[b]	**FFP Partners L.P.**	Acquires gas outlets & convenience stores	24.00	12.00	12	Donaldson Lufkin
FBNC	**First Bancorp**	Bank holding co.	7.10	17.75	17¾	Interstate Securities
MTCL	**First National Bank**	Savings bank	3.05	21.75	21¾	Ryan Beck
GPAK	**Graphic Packaging**	Produces & sells flexible packaging	12.08	10.50	10¾	William Blair
HCCC	**HealthCare COMPARE**	Provides health-care mgmt. svcs.	13.20	11	11.5	Montgomery Securities
HIRSU	**High Resolution Sciences**	Dvlps. comm. technologies	3.00	6.00[h]	6	D. H. Blair
HHC[a]	**Horizon Healthcare**	Operates health-care facilities	21.60	8.00	8	Thomson McKinnon
JAYJ	**Jay Jacobs**	Owns retail specialty stores	18.00	12.00	11⅝	Alex. Brown

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Initial public offerings sold at $1 or less not included; issues without underwriters not included. First aftermarket bid is approximate. [a] trading on NYSE; [b] trading on AMEX; [c] additional 1.1 million shares were offered overseas; [d] units of 1 common + 1 warrant; [e] units of 5 common + 2 warrants; [f] additional 700,000 shares were offered overseas; [g] additional 1.25 million shares were offered overseas; [h] units 2 common + 1 warrant; [i] additional 6.03 million shares were offered in Canada and 5.01 million shares were offered overseas; [j] units of 4 common + 4 warrants; [k] additional 1 million shares were offered overseas. Offering data source: *GOING PUBLIC: THE IPO Reporter*, a publication of The Dealer's Digest Inc., 150 Broadway, New York, NY 10038.

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CHARTS BY IMAGEBUILDER DESIGN

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David L. Birch on Business Turbulence
Finance: Cashing In Without Cashing Out

INC.'S ANNUAL
EXECUTIVE
COMPENSATION
SURVEY

WHAT TOP EXECUTIVES MAKE 1987

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INC.'S ANNUAL EXECUTIVE COMPENSATION SURVEY

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When building a business takes its toll

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Affordable alternatives to on-site day care

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THE RISE AND FALL OF EVERYBODY

Turbulence is the new fact of business life, and we'd better understand what it means

BY DAVID L. BIRCH

It would be easy—when admiring the sky on a summer day—to think of a far-off thundercloud as languid, majestic, even serene. But as pilots and weathermen know, it would be wrong. Inside that cloud is chaos. Huge updrafts and down drafts flow within and around it. Outwardly stable and inwardly tumultuous, it is the perfect symbol of our New Economy.

Viewed from afar, our economy too looks like a mammoth and billowy cloud, changing shape and size only slowly. Total numbers for job creation and productivity scarcely shift. Inside, though, it is a turbulent, swarming mass of companies, coming and going, rising and falling at extraordinary rates. These flows of business fortune within the U.S. economy raise a host of questions for all of us who are part of them. They constitute an almost continuous changing of the guard.

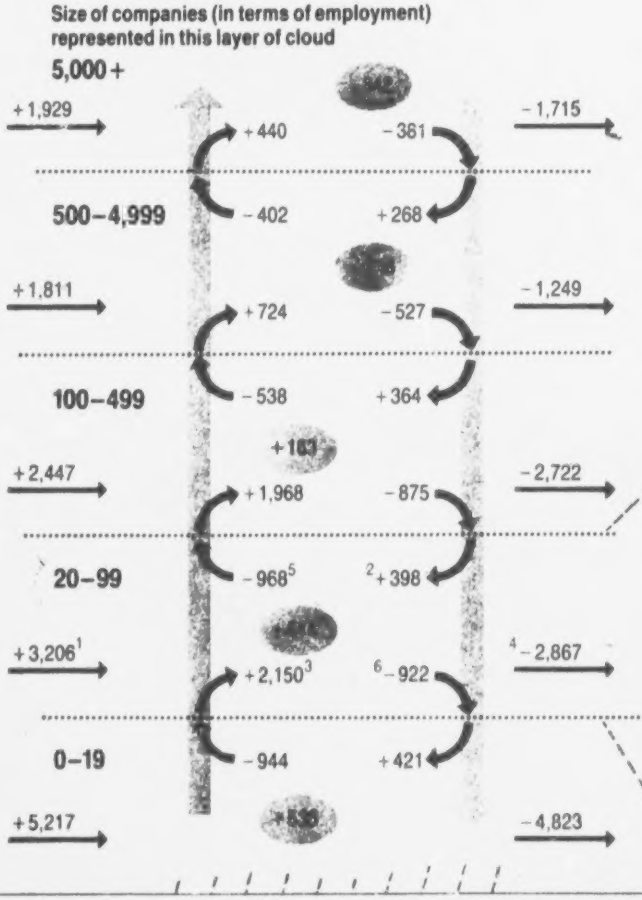
To gain an accurate picture of this activity inside the economy, we at Massachusetts Institute of Technology and now at Cognetics have been tracking the movements of about 12 million individual business establishments since 1969. We put a "tag" on each establishment (as you might tag a migrating duck) and track what happens to the establishment every six months as it moves about in the "cloud."

There is no simple way we can diagram the entire employment picture, but our economic thundercloud (see figure 1) shows some aspects of it in aggregate terms for 1982 through 1986. The arrows show how jobs move—as establishments open, close, prosper, or decline—into and out of the cloud and among its layers.

FIGURE 1 **THE ECONOMIC THUNDERCLOUD**

Job activity by company size sector, 1982–86

(All numbers in thousands if jobs, except company sizes, which are actual)



DAVID HANNUM

However sluggish the U.S. economy looks from the outside, on the inside it is anything but. Figure 1 suggests how jobs appear, vanish, or migrate among layers of the economy as businesses experience their fates. Turbulence is everywhere, despite relatively stagnant employment figures overall.

Figure 2 is a close-up of job activity among firms with 20 to 99 employees—one layer of the cloud. Its numbers are cross-referenced to the thundercloud and provide a key for interpreting other layers. Though the layers are organized by company size (and jobs move among layers as companies move) the creation and elimination of individual jobs has been tracked for each establishment. An establishment is any place people work—be it a dentist's office, a store, or a branch plant of a larger corporation. The size of a company is considered to be the cumulative size of all its establishments.

FIGURE 2

JOB ACTIVITY IN ONE LAYER OF U.S. ECONOMY

The pool of 20 to 99-employee companies (1982–86)

	(in thousands)
Total jobs in layer in 1982	13,154
[1] Jobs entering due to start-up	3,206
[2] Jobs entering due to establishments shrinking	398
[3] Jobs entering due to establishments expanding	2,150
[4] Jobs leaving due to closings	(2,867)
[5] Jobs leaving due to establishments expanding	(968)
[6] Jobs leaving due to establishments shrinking	(922)
[7] Net jobs gained by establishments remaining in layer	518
Total jobs new to layer over period	6,272
Total jobs in layer in 1986	14,669
Percent of total jobs new to layer	43%

EXECUTIVE COMPENSATION '87

THE BRAVE NEW WORLD

The 1986 Tax Reform Act has raised new questions about virtually every compensation tool a company has

BY BRUCE G. POSNER

TIME WAS WHEN EXECUTIVE COMPENSATION WAS A walk in the park. You paid your key people a competitive salary, threw in a merit raise once a year, and went about your business. Everybody was happy.

My, how times change. In recent years, executive compensation has more nearly resembled Mr. Toad's wild ride: just when you think you know where you're headed, something comes along and sideswipes you, spinning you around and sending you off in another direction. First it was persistently high inflation, which made 10% cost-of-living raises an accepted annual ritual. Then inflation abated, competition intensified, and the hot issue became "pay for performance"—that is, compensation tied to the achievement of clear goals. Scarcely had that concept taken hold than we found ourselves in the Age of the Entrepreneur, with hundreds of new companies being started every day, and the challenge of retaining key people became tougher than ever.

But all that, it turns out, was a mere taste of things to come, most of which came in 1987. It is no exaggeration to say that this year has brought more change to the world of executive compensation than any since the dawn of modern management. Granted, companies are still searching for ways to be more competitive, still looking for formulas to motivate and keep their best and brightest people. But whether you are aware of it or not, the context in which you sort through your options has been utterly transformed. No matter what business you're in, the 1986 Tax Reform Act has—to one degree or another—raised new questions about virtually every compensation tool you have.

This is not to suggest that companies are rushing to revamp their pay systems for top managers. Judging from the results of INC.'s ninth annual survey of executive compensation, most business owners are taking a wait-and-see attitude. Just 18% of the survey respondents have adjusted any of their executive compensation practices during the past year, and only 37% say they are actively considering making such changes in the coming year.

Nor do the majority appear to worry much in general about the effect of the tax laws on compensation. As in years past, respondents say that they have the most difficulty in determining the worth of a job and setting pay levels (58%), developing annual incentives and bonuses (51%), and coming up with appropriate long-term incentives or equity-participation plans (43%). Developing tax-effective compensation plans was listed as a concern by only 37% of the respondents—a higher percentage than in previous surveys, but still a distinct minority.

There is, indeed, a good argument to be made against tailoring reward systems to fit the tax laws. Moreover, companies *should* be cautious in restructuring something as important as compensation. But caution is not the same as ignorance, and no company owner can afford to remain in the dark about the implications of tax reform. They are simply too far-reaching. They affect everything you do in the area of compensation.

Take, for example, the most basic ingredient of compensation: cash. Under the old tax code, it wasn't that difficult to convince a highly paid, middle-aged executive to defer some of his annual compensation into his retirement years. By then, after all, his income would probably be lower, and so would the tax liability on the money in question. As it was, he was getting only half of each incremental dollar paid out currently (assuming he was in the 50% tax bracket). So he had a strong economic motive for setting aside a chunk of his salary or bonus and investing it on a tax-deferred basis. As for his employer, deferring compensation meant improving cash flow.

Under the new tax law, however, deferred compensation has lost its luster. It's a matter of simple math. As corporate tax rates fall from 46% to 40% to 34%, companies are faced with increasing aftertax costs of compensation and benefits in general. Meanwhile, executives find that the value of that extra dollar of current income is rising. At today's top individual tax rate, it's worth 62.5¢, rather than the 50¢ of a year ago, and it will be worth 9.5¢ more in 1988, when the rate drops to 28%. Small wonder that top executives are beginning to clamor for cash on the barrelhead. And if Congress is as likely to raise individual tax rates as many believe, there is all the more reason for executives to worry about the future value of a deferred bonus, and to push for getting their money now.

So cash has a lot more appeal now than it did a year ago. What about equity? There, too, tax reform has had a major impact. Only yesterday, it seems, executives and ambitious employees all over the country were demanding stock in their companies, and—to some extent—the rationale was economic. Equity, after all, offered the opportunity to build personal wealth through the increasing value of the shares, and the appreciation would be taxed at no more than 20%, the maximum tax rate on long-term capital gains. For an executive in the 50% bracket, the prospect of big gains and low taxes was hard to resist.

Tax reform has certainly not eliminated the appeal of capital appreciation. (Has there ever been a better way to build a nest egg than to have the value of your company's stock soar from $5 to $50?) But, starting next year, the appreciation will be taxed at the same rate as ordinary income. That change removes a significant part of the economic incentive for owning real shares of stock, and correspondingly strengthens the case for nonequity alternatives—such as phantom stock and performance bonuses—which can be structured to give employees a chance to reap the upside rewards of growth without actually becoming owners. From the company's perspective, moreover, such alternatives are often easier to administer than real equity, in that they are not subject to securities regulations. Granted, employees may still want ownership. "But there are many ways a private company can foster a feeling of ownership without giving away actual shares," notes Donald T. Sagolla, a principal in charge of management consulting with Peat Marwick Main & Co., in Hartford. Some of those other ways are more appealing than ever.

Tax reform's impact, however, goes well beyond the effects of changing tax rates. Indeed, the new law reaches into the furthest recesses of compensation, tinkering with many of the benefits that companies have used to fill out the package they offer top executives. And here there is an unmistakable trend. In various ways, the new law tends to level out tax-favored benefits. Congress is saying, in effect, that—if you want to offer a tax break on benefits—you have to provide all your employees with more or less similar rewards. You can no longer use the tax code to compensate your top people at a level that is far beyond what you are providing the rank and file.

Perhaps the most striking example of the trend involves the rules governing 401(k) retirement plans. Under the old tax code, a well-compensated executive was allowed to place up to $30,000 a year of pretax dollars into a 401(k) account. True, the maximum allowable contribution was sometimes less, depending on the level at which other employees participated in the plan. But, even so, the 401(k) offered key executives an attractive way to save for retirement.

The 1986 Tax Reform Act has all but eliminated the 401(k) as a tool of executive compensation. Not that it abolished the 401(k), but it did introduce a whole new set of guidelines for determining how much an individual can contribute. Now, instead of $30,000 a year, the maximum annual contribution per person is just $7,000. And that's only if other employees participate at a sufficient level. Otherwise, the maximum is less. Either way, the new law substantially limits the ability of companies to use the 401(k) as a means of rewarding top executives.

And the list doesn't end there. Tax reform will affect most other areas of compensation as well—incentive stock options, bonus arrangements, nonqualified plans, you name it. What it all means is that the rules of the game have changed, and the way you play it may have to change accordingly. The question is: what should you do?

To listen to a lot of the experts, you should immediately set about restructuring your entire compensation system. Tax reform has meant a field day for consultants, who have spent the past few months scurrying around, designing orchestras of bells and whistles to play in harmony with the new tax code. They have looked at every angle, tested every scenario, run reams of spreadsheets, analyzed the financial implications of everything from cash bonuses to phantom equity to nonqualified deferred bonuses. The result, unfortunately, is utter cacaphony.

EQUITY: THE ANCILLARY STOCK ALTERNATIVE

How Northwood Carwash Systems is solving the capital accumulation challenge

Gary D. Nowicki:
Setting up profitable ventures

DENNIS COX

The new tax law poses real problems for a company owner who wants to offer his key people an opportunity to accumulate capital, but who is reluctant, on the one hand, to give up equity in the business or, on the other, to commit to expenses beyond what the company can afford. A number of owners have been experimenting with an approach that may offer a way out of the dilemma. It involves giving executives stock or stock options in ancillary ventures, without making them shareholders in the principal business.

A case in point is Northwood Carwash Systems Inc., a more than $2-million distributor of car-wash equipment, located in Mount Pleasant, Mich. Until last year, the 11-year-old company had a relatively conventional compensation program. The vice-president, for example, was paid a competitive salary, plus a substantial bonus based on his performance; a sales representative received a base salary of $15,000, plus commissions, plus a bonus. Then, last year, founder Gary D. Nowicki, 40, began looking for ways to tie his key people more closely to the business.

A defined benefit pension plan was too extravagant, he felt. "If profits were down, how were we going to pay for it?" And Nowicki had reservations about sharing equity, most of which had to do with control. Then it dawned on him: what if he let employees become part owners in car washes he would build? Instead of receiving their bonuses in take-home cash, they could put the money into income-producing ventures.

The first such deal came together last September, when a key employee used his $15,000 bonus to buy a one-third interest in a new car wash in Rogers City, Mich. Nowicki and a sales rep (now an employee of Northwood) put up the other two-thirds. An additional $140,000 was borrowed from a bank to pay for the equipment; they lease the land and building with an option to buy. Nowicki expects the car wash, organized as an S corporation, to begin generating income by the end of the year. "And in 15 years, the three of us will own the land and the building," he says. Meanwhile, Nowicki is thinking about offering equity in a second car wash to five or six employees, including the two who participated in the first deal.

Consider, for example, the issue of deferred compensation. There is no denying that current cash is worth more now than it was last year, or that it will be worth still more in 1988. Nor is there much doubt that, given present interest rates, many executives would sooner take a $10,000 bonus today than $10,000 plus interest two or three years down the line.

But does that mean you should forget about deferring compensation, as some experts contend? Well, not necessarily. Yes, there could be circumstances under which you might decide to boost morale by paying out cash bonuses, even if they do cost more than they used to. Then again, cash does have certain limitations. Even

CASH: THE EMPLOYER'S BURDEN

H.T. Lyons Inc. weighs the demand for cash against its responsibility as an employer

STEVEN M. FALK

Ted Lyons:
Offering shelter or cash

With the reduction in individual tax rates, many business owners are feeling pressure to simplify their compensation systems by scaling back deferred savings programs in favor of current cash. For conscientious employers, however, the decision is not easy, raising—as it does—questions about long-term responsibilities to employees.

Consider the case of Ted Lyons, president of H. T. Lyons Inc., a $10-million to $12-million mechanical-contracting company in Bethlehem, Pa. For the past five years, the company has provided its 20-odd office and management people with a compensation package placing strong emphasis on retirement saving. (The company has a separate pay and pension plan for about 100 unionized employees.) The package includes a profit-sharing plan, into which the company generally puts about 5% of an employee's base salary each year, and a 401(k), where it matches half of an employee's personal contribution up to 2% of base salary. Participation in the latter is close to 100%. "I really talk it up," says Lyons.

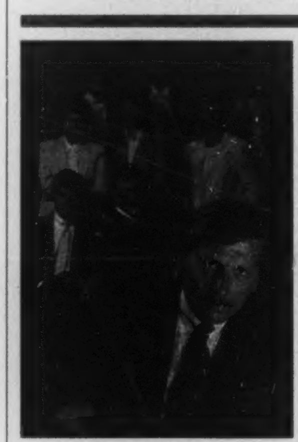
Tax reform, however, has raised questions about the system—particularly the profit-sharing part of it, since employees can't tap their tax-deferred money, without penalty, until retirement. Now that individual tax rates are falling, some of the company's top people, who earn between $40,000 and $60,000 per year including bonus, have told Lyons they would rather have profit sharing in the form of current cash.

That has put Lyons on the horns of a dilemma. On the one hand, he would like to give employees what they want. But he was troubled by the prospect of long-time employees getting ready to retire and finding that they have no savings. "That would be a real problem," he says.

Nevertheless, he finally agreed to give employees a choice in the way they receive their bonuses—but only after he was satisfied that people were adequately covered for the future by their profit sharing. "They can shelter the money," says Lyons, "or take the money and run. Either way, they'll have some money put aside that they won't be able to touch."

THE 401(K): NOW YOU SEE IT, NOW YOU DON'T

Will Wargo & Co. look for another investment vehicle for executives?


JOHN NIENHUIS

James Peters:
Attracting motivated people

The 401(k) used to be a tool for executives interested in saving for their retirement, allowing them to salt away as much as $30,000 a year, tax deferred. That's partly why Wargo & Co. set one up in 1983. Designed as a profit-sharing program for all employees, the 401(k) also served as a mechanism by which they could make additional pretax contributions on their own. "We viewed it as an excellent way to satisfy the needs of both the owners and the employees," explains James Peters, 37, cofounder and president of the $2-million human-resources consulting firm, which is located in Waukesha, Wis.

And it worked. In the first four years of the plan, most of Wargo's 30 employees contributed their own money to the 401(k) plan. The company matched annual employee contributions by an amount as high as 10% of a person's base salary, and allowed participants to borrow against their accounts. The executives, in particular, took advantage of the plan, four of them each investing well over $7,000 a year. And two of the top people, notes Peters, have been putting in around $18,000.

Now the rules have been changed, placing a cap of $7,000 on annual personal contributions and reducing the appeal of the 401(k) as an investment vehicle for better-paid employees. "There's no question that capital accumulation will be a lot tougher," says Peters. While he does not intend to terminate the 401(k), he has recently started working with attorneys and consultants to develop an additional plan, which he considers essential for attracting and retaining talented people.

Peters says it's too early to say for sure what the new program will encompass, although one of the options under consideration is equity participation. In any event, the plan will probably be open to the entire staff. "Our success," he says, "is a function of the quality of our people. They're smart, they're motivated, they're entrepreneurial, and they want to participate in the growth of the business. If we don't recognize that, we'll lose them."

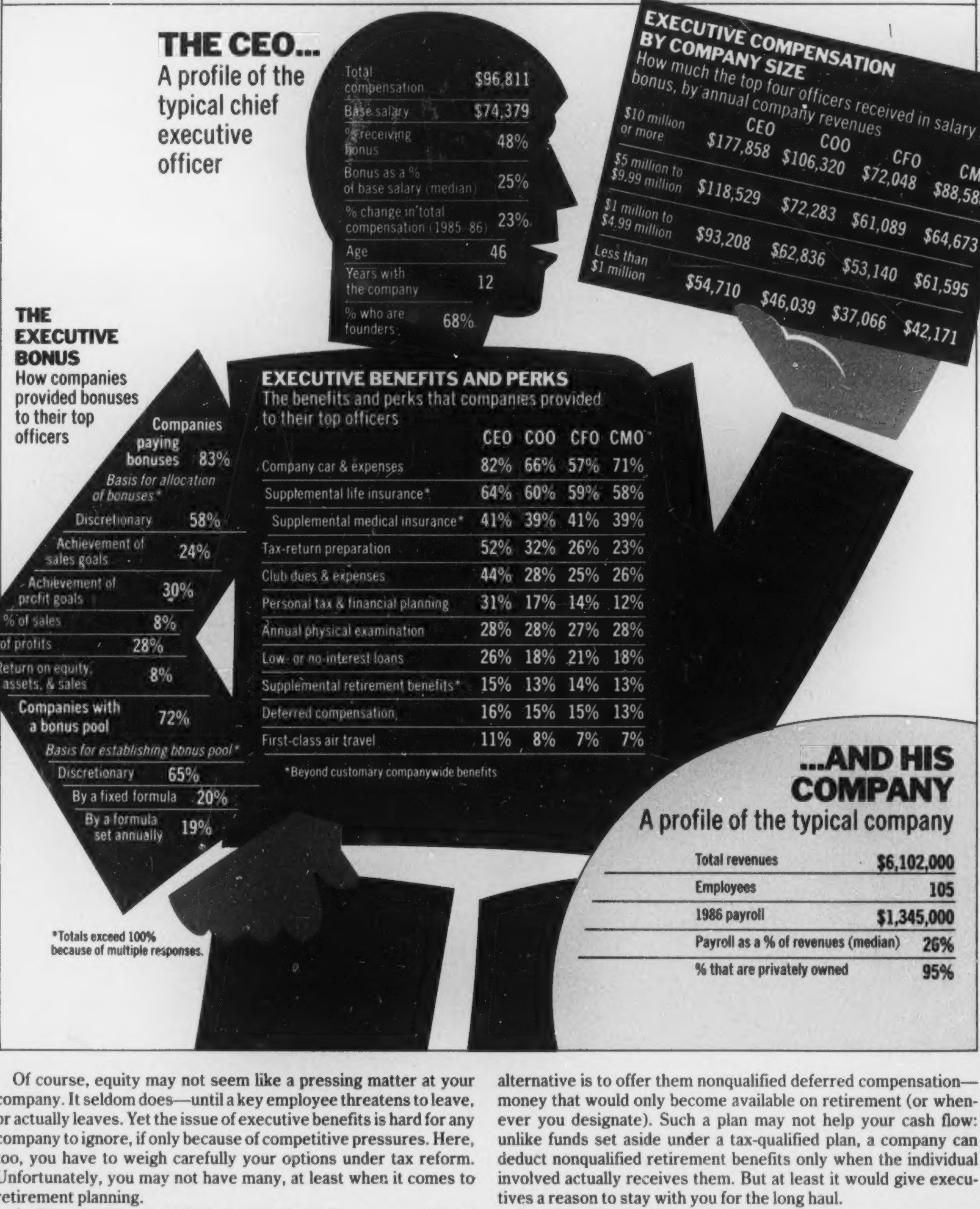
your executives would probably concede that, unlike money invested in a company plan, paid-out cash often has a way of disappearing. More important, it won't do much to keep managers focused on longer-term goals. If you reward people strictly for short-term results, don't be surprised when you get short-term thinking. If that's not what you want, you might do better giving bonuses with, say, three- to five-year payouts, no matter what the experts say.

Similarly, beware of advice that suggests stock and stock options are now obsolete. Tax reform may have reduced the economic appeal of real equity, but employees seldom push for equity participation on economic grounds alone. Phantom stock is not the same as shared ownership, even if it is designed to provide identical financial rewards. Nor is it likely to produce the same level of commitment to the business that an honest-to-goodness shareholder feels.

What's more, it's doubtful that the nonequity alternatives will long remain on an economic par with real equity. "I don't know anybody who expects the tax rates we have today to stay in place for very long," says Heidi Toppel, a principal with The Wyatt Co., a compensation- and benefits-consulting firm with offices in New York City. The betting is that, within a couple of years, Congress will raise personal tax rates, restoring the preference for capital gains. If that happens, bona fide equity will once again enjoy a financial advantage over its ersatz look-alikes, and the clamor for real stock will generate as many decibels as before.

(continued)

EXECUTIVE COMPENSATION '87: SURVEY RESULTS



THE CEO...

A profile of the typical chief executive officer

Total compensation	$96,811
Base salary	$74,379
% receiving bonus	48%
Bonus as a % of base salary (median)	25%
% change in total compensation (1985–86)	23%
Age	46
Years with the company	12
% who are founders	68%

EXECUTIVE COMPENSATION BY COMPANY SIZE

How much the top four officers received in salary and bonus, by annual company revenues

	CEO	COO	CFO	CMO
$10 million or more	$177,858	$106,320	$72,048	$88,588
$5 million to $9.99 million	$118,529	$72,283	$61,089	$64,673
$1 million to $4.99 million	$93,208	$62,836	$53,140	$61,595
Less than $1 million	$54,710	$46,039	$37,066	$42,171

THE EXECUTIVE BONUS

How companies provided bonuses to their top officers

Companies paying bonuses	83%
*Basis for allocation of bonuses**	
Discretionary	58%
Achievement of sales goals	24%
Achievement of profit goals	30%
% of sales	8%
% of profits	28%
Return on equity, assets, & sales	8%
Companies with a bonus pool	72%
*Basis for establishing bonus pool**	
Discretionary	65%
By a fixed formula	20%
By a formula set annually	19%

*Totals exceed 100% because of multiple responses.

EXECUTIVE BENEFITS AND PERKS

The benefits and perks that companies provided to their top officers

	CEO	COO	CFO	CMO
Company car & expenses	82%	66%	57%	71%
Supplemental life insurance*	64%	60%	59%	58%
Supplemental medical insurance*	41%	39%	41%	39%
Tax-return preparation	52%	32%	26%	23%
Club dues & expenses	44%	28%	25%	26%
Personal tax & financial planning	31%	17%	14%	12%
Annual physical examination	28%	28%	27%	28%
Low- or no-interest loans	26%	18%	21%	18%
Supplemental retirement benefits*	15%	13%	14%	13%
Deferred compensation	16%	15%	15%	13%
First-class air travel	11%	8%	7%	7%

*Beyond customary companywide benefits

...AND HIS COMPANY

A profile of the typical company

Total revenues	$6,102,000
Employees	105
1986 payroll	$1,345,000
Payroll as a % of revenues (median)	26%
% that are privately owned	95%

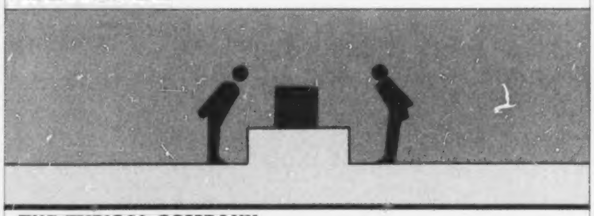
Of course, equity may not seem like a pressing matter at your company. It seldom does—until a key employee threatens to leave, or actually leaves. Yet the issue of executive benefits is hard for any company to ignore, if only because of competitive pressures. Here, too, you have to weigh carefully your options under tax reform. Unfortunately, you may not have many, at least when it comes to retirement planning.

At first glance, you might be tempted to offset the new limitations on tax-favored programs by increasing your executives' current compensation. Then they can take responsibility for their own retirement and invest the money as they please. This approach, though, has a major drawback: it gives key executives little incentive to stick around your company beyond the end of the year. An alternative is to offer them nonqualified deferred compensation—money that would only become available on retirement (or whenever you designate). Such a plan may not help your cash flow: unlike funds set aside under a tax-qualified plan, a company can deduct nonqualified retirement benefits only when the individual involved actually receives them. But at least it would give executives a reason to stay with you for the long haul.

That probably sounds good enough, and anyway you don't have many choices. There's a catch, however. Your executives probably won't take you up on a nonqualified retirement plan unless they have absolute confidence in the long-term viability of your company. That's because they'll be pinning their future, and their

(text continued on page 76; additional survey results on page 74)

SERVICE



THE TYPICAL COMPANY

A profile of the typical service business

Total revenues	$3,497,000
Employees	94
1986 payroll	$979,000
Payroll as a percentage of revenues (median)	39%
Percentage that are privately owned	97%

EXECUTIVE COMPENSATION BY COMPANY SIZE

How much service company officers received in salary and bonus, by annual company revenues

Annual revenues	CEO	COO	CFO	CMO
$10 million or more	$190,506	$114,385	$78,279	$77,436
$5 million–$9.99 million	131,745	82,241	77,511	64,696
$1 million–$4.99 million	110,736	81,046	60,051	79,181
Less than $1 million	55,180	44,328	33,049	45,413

EXECUTIVE BENEFITS AND PERKS

The benefits and perks that service companies provided to their top officers

	CEO	COO	CFO	CMO
Company car & expenses	79%	58%	56%	68%
Supplemental life insurance*	62	57	63	56
Supplemental medical insurance*	42	37	43	40
Tax-return preparation	53	38	31	24
Club dues & expenses	48	33	33	29
Personal tax & financial planning	30	17	12	11
Annual physical examination	29	28	28	32
Low- or no-interest loans	25	20	22	17
Supplemental retirement benefits*	15	10	16	17
Deferred compensation	17	17	19	11
First-class air travel	10	9	6	4

*Beyond customary companywide benefits

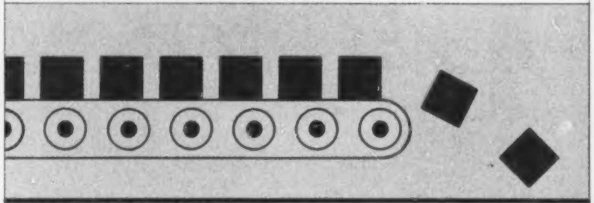
THE EXECUTIVE BONUS

How service companies provided bonuses to their top officers

Companies paying bonuses	82%
Basis for allocation of bonuses*	
Discretionary	59
Achievement of sales goals	26
Achievement of profit goals	31
Percentage of sales	9
Percentage of profits	24
Return on equity, assets, & sales	6
Companies with a bonus pool	73
Basis for establishing bonus pool*	
Discretionary	69
By a fixed formula	15
By a formula set annually	17

*Totals exceed 100% because of multiple responses.

MANUFACTURING



THE TYPICAL COMPANY

A profile of the typical manufacturing business

Total revenues	$8,440,000
Employees	109
1986 payroll	$1,696,000
Payroll as a percentage of revenues (median)	26%
Percentage that are privately owned	91%

EXECUTIVE COMPENSATION BY COMPANY SIZE

How much manufacturing company officers received in salary and bonus, by annual company revenues

Annual revenues	CEO	COO	CFO	CMO
$10 million or more	$170,637	$96,773	$72,743	$90,854
$5 million–$9.99 million	115,822	65,539	60,300	64,807
$1 million–$4.99 million	95,267	59,389	49,313	52,816
Less than $1 million	49,828	42,440	50,701	44,688

EXECUTIVE BENEFITS AND PERKS

The benefits and perks that manufacturing companies provided to their top officers

	CEO	COO	CFO	CMO
Company car & expenses	84%	67%	54%	72%
Supplemental life insurance*	67	63	63	60
Supplemental medical insurance*	38	41	43	38
Tax-return preparation	52	32	24	19
Club dues & expenses	39	22	17	21
Personal tax & financial planning	31	17	14	10
Annual physical examination	31	29	32	29
Low- or no-interest loans	24	14	18	13
Supplemental retirement benefits*	11	11	8	9
Deferred compensation	15	13	13	14
First-class air travel	13	8	8	9

*Beyond customary companywide benefits

THE EXECUTIVE BONUS

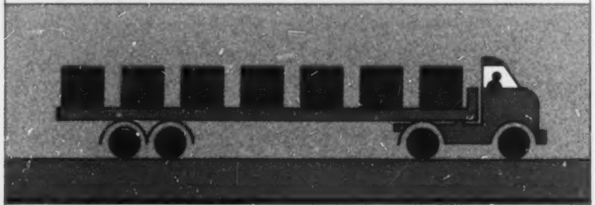
How manufacturing companies provided bonuses to their top officers

Companies paying bonuses	91%
Basis for allocation of bonuses*	
Discretionary	55
Achievement of sales goals	30
Achievement of profit goals	35
Percentage of sales	6
Percentage of profits	33
Return on equity, assets, & sales	13
Companies with a bonus pool	82
Basis for establishing bonus pool*	
Discretionary	54
By a fixed formula	23
By a formula set annually	27

*Totals exceed 100% because of multiple responses.

ILLUSTRATIONS: NIGEL HOLMES

WHOLESALE/DISTRIBUTION



THE TYPICAL COMPANY

A profile of the typical wholesale/distribution business

Total revenues	$9,172,000
[illegible]	42
1986 payroll	$1,486,000
[illegible]	[illegible]
Percentage that are privately owned	97%

EXECUTIVE COMPENSATION BY COMPANY SIZE

How much wholesaler/distributor officers received in salary and bonus, by annual company revenues

Annual revenues	CEO	COO	CFO	CMO
$10 million or more	$161,625	$93,771	$65,265	$79,552
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
$1 million–$4.99 million	85,340	51,715	44,504	54,487
[illegible]	[illegible]	[illegible]	†	†

EXECUTIVE BENEFITS AND PERKS

The benefits and perks that wholesalers/distributors provided to their top officers

	CEO	COO	CFO	CMO
Company car & expenses	85%	69%	60%	84%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Supplemental medical insurance*	37	35	32	35
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Club dues & expenses	46	31	25	24
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Annual physical examination	32	31	29	27
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Supplemental retirement benefits*	20	19	19	16
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
First-class air travel	10	7	6	5

*Beyond customary companywide benefits

THE EXECUTIVE BONUS

How wholesalers/distributors provided bonuses to their top officers

Companies paying bonuses	85%
Basis for allocation of bonuses*	
Discretionary	60
Achievement of sales goals	20
Achievement of profit goals	29
Percentage of sales	9
Percentage of profits	34
[illegible]	[illegible]
Companies with a bonus pool	77
Basis for establishing bonus pool*	
Discretionary	65
By a fixed formula	25
By a formula set annually	14

*Totals exceed 100% because of multiple responses.

†Insufficient responses for purpose of comparison

RETAIL

THE TYPICAL COMPANY

A profile of the typical retail business

Total revenues	$4,886,000
Employees	50
1986 payroll	$909,000
Payroll as a percentage of revenues (median)	16%
Percentage that are privately owned	97%

EXECUTIVE COMPENSATION BY COMPANY SIZE

How much retail company officers received in salary and bonus, by annual company revenues

Annual revenues	CEO	COO	CFO	CMO
$10 million or more	$201,730	$121,175	†	$68,495
$5 million–$9.99 million	89,367	†	†	†
$1 million–$4.99 million	56,144	40,693	†	39,667
Less than $1 million	48,330	†	†	†

EXECUTIVE BENEFITS AND PERKS

The benefits and perks that retail companies provided to their top officers

	CEO	COO	CFO	CMO
Company car & expenses	83%	78%	62%	68%
Supplemental life insurance*	62	51	55	59
Supplemental medical insurance*	46	43	45	38
Tax-return preparation	54	35	45	41
Club dues & expenses	45	24	24	32
Personal tax & financial planning	30	14	14	18
Annual physical examination	22	35	17	35
Low- or no-interest loans	24	11	17	24
Supplemental retirement benefits*	14	**	10	6
Deferred compensation	13	5	10	**
First-class air travel	11	8	**	**

*Beyond customary companywide benefits; ** means no response

THE EXECUTIVE BONUS

How retail companies provided bonuses to their top officers

Companies paying bonuses	77%
Basis for allocation of bonuses*	
Discretionary	56
Achievement of sales goals	17
Achievement of profit goals	25
Percentage of sales	9
Percentage of profits	27
Return on equity, assets, & sales	7
Companies with a bonus pool	56
Basis for establishing bonus pool*	
Discretionary	67
By a fixed formula	22
By a formula set annually	18

*Totals exceed 100% because of multiple responses.

families' future, on the fate of the business. You can protect their retirement benefits in the event the company is sold—say, by investing the money in a special trust. But there's probably no way to cover them if the business goes down the tubes. "In the end," says Steven E. Gross, a vice-president of Hay Management Consultants, in Philadelphia, "a company's promise to pay is only as good as its financial worthiness at the time that the money is due."

So how can you engender the kind of confidence that will lead to commitment? Well, you'll have to prove your competence and judgment as a leader. You'll have to convince your key people that the way you run the business makes sense; you'll have to give them a clear idea of where the company is heading; you'll have to demonstrate your own commitment to treating them fairly. You may also find that you can generate real confidence only by giving your executives greater control over the company's destiny—which brings us right back to the question of equity. Says John F. Tallitsch, a partner with Cammock, Cammock & Tallitsch Inc., a Cleveland consulting firm specializing in benefits and compensation, "Tax reform will put more pressure on owners to give up a piece of the business." If they don't, the better executives will go to work for owners who do.

If all of this sounds a little overwhelming, there's a reason. The Tax Reform Act raises questions about executive compensation that speak to management issues lying at the heart of every business. How you meet the challenge may well play a crucial role in determining your company's success in years to come.

This is not an argument for haste, however, but for careful, thoughtful planning. Don't worry if the choices seem confusing. Executive compensation *is* confusing—all the more so given the changes in the tax laws. Today's waters are, to a large extent, uncharted; the best solutions are still waiting to be found. In searching for those solutions, the important thing is to keep squarely focused on the specific needs of your business and the people you want to motivate and retain. Yes, the rules have changed, but that doesn't mean you should redesign your whole company to fit them. In other words, don't allow the tail to wag the dog. Remember that compensation is, first and foremost, a management tool.

And one other point: don't expect the compensation system you settle on to carry you indefinitely into the future. The past 10 years of tumult have not been an aberration: they reflect important economic trends and, as such, are probably typical of what lies ahead. The simple fact is that the world of executive compensation is likely to go right on changing, and companies will feel pressure to change along with it. "What looks like a good compensation system today may have to be totally redone a couple of years from now," notes Ed Johnson, chief executive officer of The Johnson Cos., a benefits- and compensation-consulting firm located in Newtown, Pa.

So there may be a silver lining to the clouds of confusion surrounding the implications of the Tax Reform Act. It may just force company owners to do what they should be doing anyhow: to step back and reexamine their compensation systems, and to make sure they serve both the business and the people who work for it. How you pay people, after all, is not just any management tool. It's one of the most powerful tools you have. □

PROFIT SHARING: THE ONE PERCENT SOLUTION

For Hydra-Tech Inc., the "brave new world" is even better than the old one

JOHN BROOKS

Jerry Hudson:
Letting people see the profit

Tax reform has forced many companies to cast about for new ways to reward their key executives. For a few lucky ones, however, the old ways work better than ever. Take Hydra-Tech Inc., a rapidly growing manufacturer of "aerial devices," which are better known as cherry pickers. Six years ago, the Fort Wayne, Ind., company began giving its top people a share of the quarterly profits. Now, thanks to tax reform, the managers can keep more of the cash than they used to.

Founder Jerry Hudson came up with his unusual system back in 1981, when Hydra-Tech first began to turn a profit. At the time, he was already giving out quality and production bonuses, designed to keep employees focused on matters he considered critical to the company's growth. The appearance of black ink offered him an opportunity to do more. "The important thing," says Hudson, a 48-year-old former accountant, "was not to be greedy. I wanted the managers who were working hard to actually *see* the profit."

He had three key employees, all in their twenties and early thirties. Cash, he figured, would mean more to them than, say, a pension plan. Accordingly, he decided to give each of them a 1% share of the pretax profits on a quarterly basis.

Today Hudson presides over a $7-million company with 71 employees, and the profit-sharing program is going strong. The only difference is that there are now 12 key people in the system, meaning that Hydra-Tech distributes 12% of its pretax profits to executives, plant supervisors, and engineers. Recently, the quarterly checks have run in the $1,000 to $2,000 range, and they will get larger as profits grow.

As for the future, Hudson is thinking about offering his top people a chance to own stock in a new company he intends to start. That, he notes, would allow them to accumulate capital as they get older. For now, however, he wants them to focus on building Hydra-Tech and believes that his profit-sharing program encourages them to do just that.

"Some people think this is no way to run a company," he says. "But the the way I look at it, I can't lose. The more money they make, the more I make."

THE FACTS BEHIND THE FIGURES

This is the ninth consecutive year that INC. has conducted an executive compensation survey. In March, we mailed a four-page questionnaire to a random sample of 20,000 subscribers. Data Tabulation Services Inc., of Stoneham, Mass., compiled the 1,582 usable returns. To expand on the issues covered in the survey, INC. hosted a roundtable discussion in June. Among those attending the session were five of the chief executive officers who responded to the survey, as well as John F. Tallitsch, a partner with Cammock, Cammock & Tallitsch, a Cleveland consulting firm specializing in benefits and compensation.

We have prepared a special report containing the complete results of the survey. The report—while preserving the confidentiality of the survey responses—provides more detailed information than we have space to publish in the magazine. To obtain a copy, please send a written request and a check for $77 ($75, plus $2 shipping and handling) to INC. Executive Compensation Study, Attn: Mary Ellen Mullaney, 38 Commercial Wharf, Boston MA 02110, or call (800) 372-0018. In Massachusetts, call (617) 227-4700.

The survey was conducted under the supervision of special projects editor Sara Baer-Sinnott, with additional research by Teri Lammers.

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GROWING COMPANIES

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JOHN SCULLEY

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THE BOOMING HIDDEN MARKET

There *are* companies out there that'll need what you're selling. You just haven't heard of them yet

BY DAVID L. BIRCH

Are you finding it tougher and tougher to maintain growth and market share? Do your competitors seem to have some edge that you lack? Do you ever get the feeling that new-business development is playing a more important role in your company's fate? I'm not surprised, and you are not alone. Either you're caught in a down draft in our increasingly turbulent economy, or you're doing business with a company that is.

The down drafts are part of an economy that last month I compared with a huge thundercloud—peaceful and generally unchanging when viewed from the outside (in the aggregate) but chaotic on the inside. The cloud is dominated by hundreds of thousands of rapidly rising companies (mostly smaller in size) offsetting the declines of hundreds of thousands of rapidly sinking ones (mostly larger). For any business selling goods or services to other businesses, these updrafts and down drafts mean trouble, or opportunity, or both. Understanding the activity in the cloud will help you understand the companies you're selling to now, and the ones you might want to be selling to instead.

Historically, many businesses have focused their marketing and selling efforts on larger companies because these are the easiest to identify and the most efficiently reached. Unfortunately, larger companies have been particularly prone to finding themselves in a down draft. During the years 1980 through 1986, *Fortune* 500 companies alone laid off a net 2.8 million workers—the rough equivalent of today's entire labor force in Massachusetts. Large corporations have been the most severely affected by international competition, an overvalued dollar, and a host of other problems.

FIGURE 1

[illegible]	Percent of Gross New Jobs Created
[illegible]	83%
[illegible]	93%
[illegible]	98%

Almost every new job in the United States is created by a small group of fastest-growing companies. (The percentages represent "gross" additions, not percentages of "net" new job totals that would result after subtracting job losses by declining companies. The percentages of net new jobs created by rapidly growing companies are well over 100%.)

Yet while so many large businesses have been struggling, nearly 10 million jobs have been *added* to the U.S. economy. Virtually all of that growth on a net basis has come from companies with fewer than 100 employees. And most of it comes from a relatively few businesses buried in a sea of some 7 million others that are scarcely changing. Figure 1 shows that over the past five years, the top 5% of companies, ranked by growth, created 83% of the jobs added by all companies that existed at the start of the period. The top 10% created 93% of all new jobs.

What more is known about these select rapid growers? Usually, they start very small. As figure 2 shows, a large majority of the past half-decade's fastest-growing enterprises began the period with fewer than 20 employees. Also, they are volatile. They grow, but not on a consistently rising line. Of course, the discovery that growth and volatility go hand in hand should come as no surprise. Risk, growth, and uncertainty are all parts of the same equation.

FIGURE 2

	Percent of Indicated Rapidly Growing Companies that Started with Employment of:				
	0–19	20–99	100–499	500–4,999	5,000+
[illegible]	63.7%	24.3%	8.5%	3.0%	0.4%
[illegible]	79.5%	17.0%	3.1%	0.5%	0.1%

This newly turbulent economy has brought managers an enormous marketing challenge. The old tried-and-true customers who used to buy a lot are struggling. And their places are being taken by a relatively few rapidly growing, unstable companies, most of which emerge quickly out of a morass of 7 million smaller concerns.

These companies—tomorrow's expanding market—are tough to find exactly when you most want to find them: at the point when their growth creates huge needs and when they are forming their first (and perhaps lasting) bonds with suppliers. To capture them as customers, you must switch from doing an excellent job of selling to a few obviously visible companies to doing an excellent job of selling to a few mostly invisible smaller companies. The latter will become the big companies in the near future; today they represent virtually all the growth in the economy. A real change is taking place, and you are going to have to change with it. If you wait for the new crop of companies to "grow up," there is a good chance your competitors will already have nailed them down as customers.

And if you succeed in finding the next crop of rapid growers? Then your marketing task will be complicated by their volatility. Their growing pains and fluctuations of fortune will become your problems. Still, your understanding of their volatility could become a major selling point if you can tailor your product or service (and the terms under which you offer it) to your customers' ups and downs.

The struggle to meet these challenges will likely be worthwhile. It is hard to imagine that companies that locate and successfully cater to the rapid growers will not be richly rewarded.

However, a few cautionary observations are in order. While trying to capture the major source of growth in the economy, you can't afford to ignore several other groups of companies. The first are the growing businesses that happen to be large. In many cases, these are rapidly growing, small companies that simply outgrew the "small" category. Their founders may be still directly or indirectly involved. Wal-Mart Stores, Compaq Computer, K mart, Digital Equipment, Federal Express, and Mrs. Fields Cookies come immediately to mind. Such companies are obviously not to be ignored, but the competition to win their business is very intense. *(continued)*

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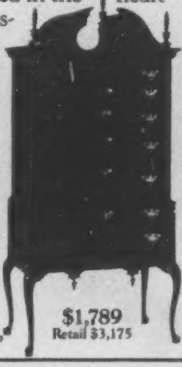
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THE NEW ECONOMY

Large, declining companies also may be perfectly acceptable targets for particular products or services: consulting services, for example, or real-estate management (to deal with the consolidations taking place), and of course outplacement assistance, whose entire purpose is to help declining companies in the process of finding jobs for the workers they no longer need.

Last, but certainly not least, is the vast pool of steady-state companies—a pool that includes the majority of companies in our economy. These businesses don't change much (nor do their needs) but their number is large. They all need to replace the supplies they use, the people who leave, and the equipment that wears out or becomes obsolete. And they all need to manage their money, their travel, their retirement plans, and their insurance. The problem is that they are much less likely to make a decision in the next 12 months or to switch suppliers at all—because their world is, almost by definition, in balance. And, most important, they are extremely unlikely to become the WalMarts and Apple Computers of the future. Selling to them is expensive, and the long-term payoff is no greater than the payoff you receive today.

Discussion of other company groups aside, it remains true that a small group of rapidly growing companies accounts for most of the action in today's turbulent economy. Important as that may be, more critical is understanding what kinds of companies you are dealing with in "economic thundercloud" terms. If you want to consciously focus your efforts on large, declining businesses, that's fine so long as you know: first, that that is what you're doing; and second, that in the slightly longer term, your market will be rapidly shrinking. If you want to focus on the *Fortune* 1,000 and *Fortune*'s Service 500, that's fine too, so long as you're aware that the competition will be very tough and the net growth very small—if there is any. If you want to market to the large pool of stable companies, that's fine so long as you do so knowing that you are missing most of the next wave of economic growth in the United States. And if you want to identify and sell to this next wave, you should remember that it is a volatile, difficult group of companies to identify and hang on to.

In short, whatever you're doing, you ought to make sure you realize *what it is* you're doing, and design your products, terms of sale, and marketing strategy to fit the dynamics of the companies you are trying to reach. ☐

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COAST TO COAST

This year's survey tells the tale of two economies. The one that's flourishing has top universities, a strong technology base—and an ocean view

One is prosperous, while the other is still in the throes of a deep recession. One boasts of fine universities and information-intensive businesses, while the other mourns the loss of farms, factories, and oil rigs.

The U.S. economy has become bicoastal. Need proof? Look no further than this year's Report on the States. Of the top 10 states, 8 look out upon an ocean. And the 2 land-locked states, Arizona and Nevada, have a coastal state to thank for their economic growth.

The coastal states are not simply rising on the tide. Their economic growth has strong underpinnings: a decades-long transition from heavy industry to service businesses, and a reliance on the commercialization of technology developed at top research universities.

Look, for example, at Massachusetts (#9), home to about 65 institutions of higher education. A one-square-mile piece of land near Massachusetts Institute of Technology has outperformed each of 13 states in terms of job creation since 1980. And the area's strong economy has spilled over to woodsy New Hampshire (#2). "New Hampshire has attracted people who want low-to-no taxes, yet still want to be near rapid growth," says Ted Lyman, associate director of the Center for Economic Competitiveness at SRI International. Similarly, Maryland (#3) and Virginia (#5) benefit from the service and technology growth around the nation's capital. The federal government has also enabled Florida (#6) to blast off. Aided by the space program, the state has added the electronics industry to its healthy base of tourism. It is also enjoying the rewards of entrepreneurship among many of Miami's Cuban immigrants.

California (#8) continues to profit from the engineering prowess of its universities and the spin-off activity among its technology companies. Its growth has helped Nevada (#10), too: Reno and Las Vegas have absorbed some of the expansion from San Francisco and Los Angeles, respectively. California's growth has also given #1 Arizona a big lift. With its cheaper land and labor, Arizona has become a refuge for high-tech companies seeking relief from crowded Silicon Valley.

Georgia (#4), with its impressive universities, Atlanta's expanded airport, and extensive interstate highways, has positioned itself as a regional hub for the entire fast-growing Southeast. As a result, it has been able to nurture small high-tech companies and service businesses that cater to regional distribution offices.

Delaware has reached #7 by a different route—a concerted effort to round out its manufacturing-based economy, long exemplified by E. I. du Pont de Nemours & Co. By offering special tax incentives, for instance, the second smallest state has added roughly 9,000 banking jobs since 1981. And Delaware has become one of the major processing centers for credit-card operations.

The future doesn't look nearly as bright for states still dependent on oil, agriculture, and heavy industry. The latest to take a hard fall in the rankings is Alaska. After weighing in at #2 last year, its ranking fell further than the mercury on a Juneau night. This year, it tumbled into the 39th slot.

—Joshua Hyatt

WHAT THE RANKINGS MEAN

This year's rankings measure how a state is actually doing in stimulating entrepreneurial activity and economic expansion. A state's position on the list reflects its economy's relative success, over a four-year period, in three areas: job generation, new-business creation, and young-company growth.

JOB GENERATION. The figures in columns 1 and 2, from the federal government's Bureau of Labor Statistics, indicate a state's gain (or loss) in private-sector and civilian public-sector employment between February 1983 and February 1987.

NEW BUSINESSES. The figures in column 4, compiled for the Report on the States by Cognetics Inc., in Cambridge, Mass., include all companies founded in 1983 or later that had at least 10 employees by January 1987. The "birthrate" in column 5 is this number divided by the total number of business establishments in the state.

YOUNG-COMPANY GROWTH. Column 7, also compiled by Cognetics, lists all the companies founded in 1979 or later that registered a growth index of at least 20 between the beginning of 1983 and the beginning of 1987. What's a growth index? Simply the company's *absolute* growth in employment multiplied by its *percentage* growth in employment (expressed as a decimal). Say you employed 50 people in January 1983 and 75 people in January 1987. Your growth index would be 25 x .50, or 12.5—not enough to make the list. Figuring growth in this way eliminates any bias in favor of large companies (which might have high absolute numbers) or small (which might have high percentage numbers).

Column 8 is the number of these young, fast-growing companies divided by all of a state's business establishments founded in 1979 or later.

SCORES. A state's scores (columns 3, 6, and 9) are computer-generated rankings that reflect how it stands in relation to all the other states. The top state in any one category gets a score of 33.33, the bottom state a score of one. Every other state is assigned a number reflecting its relative position on an imaginary scale between the top and the bottom. The top possible score is 100.

All scoring is based on a state's ranking in the percentage columns, not in the absolute-numbers columns. Column 10—the bottom line, so to speak—is the sum of the other three "score" columns.

GRAPHIC: IMAGEBUILDER DESIGN

RATING THE STATES 1987:
NEW JOBS, NEW COMPANIES, AND THE CLIMATE FOR GROWTH

Rank/State (1986 rank)	No. New Jobs (in thou.) 1	Growth in Jobs 2	Score 3	No. New Companies 4	Business Birth Rate 5	Score 6	No. Fast-Growth Companies 7	% Fast-Growth Companies 8	Score 9	Total Score 10
1. **ARIZONA** (1)	334.7	32.18%	33.33	1,955	3.80%	33.33	418	3.57%	31.10	97.77
2. **NEW HAMPSHIRE** (4)	107.2	27.82	29.68	496	2.51	17.65	115	3.56	30.99	78.32
3. **MARYLAND** (6)	314.0	19.08	22.36	2,046	2.93	22.76	496	3.66	32.16	77.27
4. **GEORGIA** (5)	527.5	24.02	26.49	2,961	3.04	24.09	601	3.02	24.66	75.25
5. **VIRGINIA** (10)	452.1	21.37	24.27	2,372	2.87	22.03	514	3.24	27.24	73.54
6. **FLORIDA** (7)	942.4	24.70	27.06	6,668	3.12	25.07	1,459	2.73	21.26	73.39
7. **DELAWARE** (8)	50.5	19.82	22.97	238	2.39	16.19	59	3.54	30.75	69.92
8. **CALIFORNIA** (11)	1,720.7	17.75	21.24	13,091	2.65	19.35	3,309	3.14	26.07	66.66
9. **MASSACHUSETTS** (9)	397.4	15.35	19.23	2,393	2.19	13.76	601	3.76	33.33	66.32
10. **NEVADA** (20)	92.7	24.04	26.51	478	2.69	19.84	97	2.32	16.46	62.81
11. **TENNESSEE** (16)	306.0	18.44	21.82	1,917	2.68	19.72	375	2.68	20.68	62.22
12. **TEXAS** (3)	377.7	6.18	11.55	9,905	3.44	28.95	1,798	2.75	21.50	62.00
13. **NORTH CAROLINA** (15)	433.8	18.62	21.97	2,136	2.38	16.07	438	2.88	23.02	61.06
14. **SOUTH CAROLINA** (14)	207.5	18.11	21.54	1,249	2.72	20.20	202	2.41	17.52	59.26
15. **UTAH** (12)	82.3	14.98	18.92	722	2.54	18.02	162	2.68	20.68	57.61
16. **CONNECTICUT** (19)	214.6	15.34	19.22	1,285	2.03	11.82	338	3.18	26.54	57.57
17. **NEW JERSEY** (18)	439.6	14.50	18.52	3,326	2.22	14.13	731	3.01	24.54	57.19
18. **VERMONT** (21)	39.4	19.59	22.78	200	1.77	8.66	46	2.68	20.68	52.12
19. **MICHIGAN** (24)	527.5	16.93	20.55	3,038	1.99	11.33	672	2.60	19.74	51.63
20. **HAWAII** (34)	42.7	10.56	15.22	421	2.14	13.15	114	2.88	23.02	51.39
21. **ALABAMA** (28)	182.3	14.18	18.25	1,297	2.41	16.44	219	2.31	16.35	51.03
22. **COLORADO** (13)	100.8	7.79	12.90	1,900	2.86	21.91	366	2.27	15.88	50.68
23. **OHIO** (29)	508.5	12.84	17.12	3,583	1.99	11.33	817	2.68	20.68	49.13
24. **WASHINGTON** (27)	242.1	15.84	19.64	1,741	2.01	11.57	437	2.44	17.87	49.08
25. **INDIANA** (25)	285.6	14.61	18.61	1,818	2.10	12.67	326	2.42	17.63	48.91
26. **MAINE** (26)	75.5	18.84	22.15	361	1.79	8.90	75	2.43	17.75	48.80
27. **RHODE ISLAND** (22)	57.7	15.19	19.09	338	1.62	6.33	87	2.84	22.55	48.48
28. **NEW YORK** (23)	794.9	11.18	15.73	7,039	1.99	11.33	1,674	2.72	21.15	48.21
29. **MINNESOTA** (30)	229.0	13.86	17.98	1,548	1.85	9.63	379	2.56	19.27	46.88
30. **NEW MEXICO** (17)	61.9	13.30	17.51	524	2.22	14.13	107	2.14	14.35	45.99
31. **MISSOURI** (31)	237.4	12.69	17.00	1,873	1.90	10.24	380	2.28	15.99	43.23
32. **PENNSYLVANIA** (32)	368.8	8.40	13.41	3,555	1.75	8.41	785	2.74	21.38	43.21
33. **OREGON** (40)	128.1	13.75	17.89	1,087	1.86	9.75	267	2.14	14.35	41.99
34. **KENTUCKY** (37)	156.0	13.89	18.01	1,256	2.10	12.67	197	1.86	11.07	41.75
35. **WISCONSIN** (39)	209.2	11.69	16.16	1,528	1.72	8.05	329	2.22	15.29	39.50
36. **ILLINOIS** (38)	342.4	7.72	12.84	3,923	1.80	9.02	912	2.42	17.63	39.50
37. **ARKANSAS** (33)	105.9	14.88	18.83	768	1.86	9.75	144	1.82	10.61	39.19
38. **KANSAS** (36)	85.4	9.56	14.38	995	1.88	9.99	188	2.08	13.65	38.02
39. **ALASKA** (2)	12.0	6.19	11.55	250	2.26	14.61	44	1.92	11.78	37.94
40. **MISSISSIPPI** (41)	80.6	10.49	15.15	697	1.94	10.72	100	1.56	7.56	33.44
41. **WEST VIRGINIA** (46)	23.0	4.09	9.80	524	2.07	12.30	66	1.72	9.43	31.54
42. **IDAHO** (42)	27.2	8.95	13.87	324	1.67	7.44	59	1.56	7.56	28.87
43. **NEBRASKA** (44)	57.9	9.79	14.57	505	1.41	4.28	110	1.73	9.55	28.41
44. **LOUISIANA** (35)	-60.5	-3.91	3.09	1,605	2.19	13.76	290	1.86	11.07	27.93
45. **SOUTH DAKOTA** (45)	23.0	10.30	15.00	176	1.15	1.12	34	1.26	4.05	20.16
46. **IOWA** (48)	84.8	8.47	13.47	662	1.14	1.00	129	1.38	5.45	19.92
47. **OKLAHOMA** (43)	-34.7	-3.00	3.86	1,308	1.93	10.60	203	1.31	4.63	19.09
48. **MONTANA** (47)	7.0	2.66	8.60	284	1.35	3.55	54	1.16	2.87	15.02
49. **NORTH DAKOTA** (49)	3.4	1.41	7.55	192	1.33	3.31	27	1.08	1.94	12.80
50. **WYOMING** (50)	-12.7	-6.41	1.00	157	1.30	2.94	29	1.00	1.00	4.94